PODRAVKA d.d.

AUDITOR’S REPORT AND FINANCIAL STATEMENTS 31 DECEMBER 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers d.o.o.
Alexandera von Humboldta 4
HR-10000 Zagreb
CROATIA
Telephone (385 1) 63 28 888
Facsimile (385 1) 61 11 556

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Independent auditor's report

To the shareholders of PODRAVKA d.d.

We have audited the accompanying parent Company financial statements of PODRAVKA d.d. (the 'Company') which comprise the balance sheet as of 31 December 2006 and the income statement, statement of changes in equity and 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 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 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 financial statements present fairly, in all material respects, the financial position of the parent Company 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.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of HRK)	**Note**	**2006**	**2005**
Sales	5	1,596,658	1,569,037
Cost of goods sold		(976,919)	(960,722)
Gross profit		**619,739**	**608,315**
Other gains /(losses) – net	6	27,836	(9,224)
General and administrative expenses		(261,826)	(212,658)
Selling and distribution costs		(426,538)	(411,749)
Other revenues	7	88,691	48,990
Other expenses	8	(2,059)	(3,225)
Operating profit		**45,843**	**20,449**
Finance income		4,149	20,203
Finance costs		(44,063)	(27,090)
Net financial expense	11	(39,914)	(6,887)
Profit before tax		**5,929**	**13,562**
Income tax expense	12	-	-
Net profit		**5,929**	**13,562**

The financial statements set out on pages 2 to 44 were approved by the Management Board on 29 March 2007.

President of the Management Board

Darko Marinac

The notes on pages 6 to 44 are an integral part of these financial statements.

PODRAVKA d.d.

BALANCE SHEET

AS AT 31 DECEMBER 2006

(in thousands of HRK)	**Note**	**2006**	**2005**
ASSETS			
Non-current assets			
Property, plant and equipment	15	1,017,096	991,534
Intangible assets	16	36,992	42,286
Investments in subsidiaries	17	421,744	421,539
Available-for-sale financial assets	19	-	21,037
Trade and other receivables	21	246,267	246,308
		1,722,099	**1,722,704**
Current assets			
Inventories	20	246,843	235,347
Trade and other receivables	21	779,971	511,633
Financial assets at fair value through profit or loss	22	3,046	113
Cash and cash equivalents	23	80,675	77,525
		1,110,535	824,618
Non-current assets held for sale	18	2,605	5,610
		1,113,140	**830,228**
Total assets		**2,835,239**	**2,552,932**
LIABILITIES			
Non-current liabilities			
Long-term debt	27	463,937	408,698
Provisions	28	16,416	10,704
		480,353	**419,402**
Current liabilities			
Trade and other payables	26	584,716	284,694
Short-term borrowings	27	275,368	135,808
Provisions	28	17,406	1,461
		877,490	**421,963**
Total liabilities		**1,357,843**	**841,365**
Shareholders' equity			
Share capital	24	1,421,644	1,632,544
Reserves	25	51,982	70,581
Retained earnings		3,770	8,442
		1,477,396	**1,711,567**
Total liabilities		**2,835,239**	**2,552,932**

The notes on pages 6 to 44 are an integral part of these financial statements.

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	1,621,980	65,331	27,585	1,714,896
Net profit for the year		-	-	13,562	13,562
Total recognised income for 2005		-	-	13,562	13,562
Purchase of treasury shares		(3,440)	-	-	(3,440)
Options exercised		5,143	-	(766)	4,377
Fair value of share options		8,861	-	-	8,861
Dividend approved		-	-	(26,689)	(26,689)
Transfer to other and legal reserves		-	5,250	(5,250)	-
Balance at 31 December 2005	24,25	**1,632,544**	**70,581**	**8,442**	**1,711,567**
Net profit for the year		-	-	5,929	5,929
Total recognised income for 2006		-	-	5,929	5,929
Purchase of treasury shares		(9,721)	-	-	(9,721)
Sale of treasury shares		9,649	-	-	9,649
Options exercised		14,209	-	(2,159)	12,050
Fair value of share options		13,839	-	-	13,839
Dividend approved		-	(19,921)	(7,120)	(27,041)
Transfer to other and legal reserves		-	1,322	(1,322)	-
Call option on Company shares		(238,876)	-	-	(238,876)
Balance at 31 December 2006	24,25	**1,421,644**	**51,982**	**3,770**	**1,477,396**

The notes on pages 6 to 44 are an integral part of these financial statements.

PODRAVKA d.d.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

(in thousands of HRK)	Note	2006	2005
Cash flows from operating activities			
Cash generated from operations	31	156,024	164,550
Interest paid		(30,059)	(28,200)
		125,965	**136,350**
Cash flows from investing activities			
Acquisition of equity interest	17	(1,114)	(3)
Sale of equity interest	17	13,006	-
Purchase of tangible and intangible assets	15, 16	(148,164)	(68,850)
Sale of available-for-sale assets and tangible assets	18, 15	18,551	3,399
Long-term loans given and deposits		-	(501)
Repayment of long-term loans given and deposits		24,781	70,629
Purchase of trading securities	22	(9,105)	(6,679)
Sale of trading securities	19, 22	35,525	5,891
Short-term loans given and deposits		(301,641)	(1,439)
Repayment of short-term loans given and deposits		39,394	11,521
Interest received		18,236	15,785
Dividends received	7	-	355
		(310,531)	**30,108**
Cash flows from financing activities			
Purchase of treasury shares		(9,721)	(3,440)
Sale of treasury shares		22,583	5,026
Proceeds from long-term borrowings		-	19,043
Repayment of long-term borrowings		(282,977)	(108,545)
Proceeds from short-term borrowings		292,596	14,242
Repayment of short-term borrowings		(182,724)	(14,474)
Proceeds from bonds issued		375,000	-
Dividends paid		(27,041)	(25,468)
		187,716	**(113,616)**
Net increase in cash and cash equivalents		**3,150**	**52,842**
Cash and cash equivalents at beginning of year	23	77,525	24,683
Cash and cash equivalents at the end of year	23	80,675	77,525

The notes on pages 6 to 44 are an integral part of these financial statements.

NOTE 1 – GENERAL INFORMATION

Podravka prehrambena industrija d.d., Koprivnica (the Company) is incorporated in the Republic of Croatia. The Company's principal activity is the manufacture of a wide range of foodstuffs and non-alcoholic beverages.

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 financial statements 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 Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The Company has issued these non-consolidated financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2006 and for the year then ended, in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 29 March 2007. In the consolidated financial statements, subsidiary undertakings (listed in Note 17) – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2006 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(a) Amendments to published standards effective in 2006

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

(b) Standards and interpretations early adopted by the Company

No standards and interpretations were early adopted by the Company.

(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 Company'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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

- *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.

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

The following interpretations to existing standards are mandatory for the Company's accounting period beginning on or after the effective date, but are not relevant to the Company'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 Company 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 Company 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 Company'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 Company'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 not relevant for the Company's non-consolidated financial statements.

- *IFRIC 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008).* IFRIC 12 is not relevant since the Company is not an operator of a public-to-private service concession arrangement.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The 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.

2.3 Segment reporting

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. The business segment is not applicable to the Company, since it is part of one segment.

2.4 Investments in subsidiaries

Investments in subsidiaries in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are recorded at cost, less impairment losses, if any. Impairment is tested annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries for which an impairment loss has been recorded are tested at each reporting date for a potential reversal of impairment.

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 Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Buildings	10 to 50 years
Equipment	3 to 18 years

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

The residual value of an asset is the estimated amount that the Company 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 Company 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

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 right are tested annually for impairment and are stated at cost less accumulated impairment losses (Note 2.7).

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

(b) Loans and receivables

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Financial assets (continued)

(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 Company 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 Company has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Company 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 Company 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company 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 Company are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

2.11 Inventories

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

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

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

Small inventory and tools are expensed when put into use.

2.12 Trade receivables

Trade 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 trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the 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 trade 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 line item '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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company does not capitalise borrowing costs.

Borrowings are classified as current liabilities unless the Company 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 Company 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 Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-employment benefits.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Employee benefits (continued)

(b) Termination benefits

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Provisions (continued)

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 Company's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts.

The Company 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 Company's activities as described below.

(a) Sales of products and trade goods – wholesale

The Company manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Company 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 Company 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 Company 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 Company does not operate any loyalty programmes.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.19 Revenue recognition (continued)

(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.

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.

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 Company's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest rate risk. The Company 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 Company 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 and recognised assets and liabilities.

The majority of the Company'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 Company does not use derivative instruments to actively hedge foreign exchange risk exposure. In 2006, the Company 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 Company's assets, which potentially subject the Company to concentrations of credit risk primarily include cash and trade receivables. The Company 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 Company has no significant concentrations of credit risk, since receivables are dispersed among a large group of customers. Credit risk with respect to cash is related to bank deposits that are held by one financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The Company 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 Company has significant interest-bearing assets in the form of loans and deposits given, the Company's income and operating cash flows are substantially dependent of changes in market interest rates.

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

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

NOTE 3 – FINANCIAL RISK MANAGEMENT (continued)

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 Company 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 Company 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 Company for similar financial instruments.

NOTE 4 – CRITICAL ACCOUNTING ESTIMATES

The Company 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) Long-term employee benefits

In line with the collective bargaining agreement, the Company provides jubilee awards to employees. For the present value calculation of these benefits, the Company 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.

(b) 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 Company.

NOTE 5 – SALES

	2006		2005	
	Sales		Sales	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Sales of products:				
Food and beverages	1,118,360	70.0	1,083,977	69.1
Food and beverages – Group	367,162	23.0	354,867	22.5
	1,485,522		1,438,844	
Other sales:				
Services	10,129	0.6	9,534	0.7
Services – Group	101,007	6.4	120,659	7.7
	111,136		130,193	
	1,596,658	**100**	**1,569,037**	**100**

5.1 Segment information

Primary reporting format – geographical segments

The Company monitors realised income and gross profit based on the following geographical environments:

- Croatia and
- Foreign countries

The results of the stated segments for the year ended 31 December 2005 are as follows:

(in thousands of HRK)	**Croatia**	**Foreign countries**	**Unallocated**	**Total**
Sales	1,006,919	562,118	-	**1,569,037**
Cost of goods sold	(604,413)	(356,309)	-	(960,722)
Gross profit	402,506	205,809	-	**608,315**
Operating profit			20,449	**20,449**
Financial expense				(6,887)
Profit before tax				**13,562**
Income tax				-
Profit for the year				**13,562**

NOTE 5 – SALES (continued)

5.1 Segment information (continued)

The results of the stated segments for the year ended 31 December 2006 are as follows:

(in thousands of HRK)	**Croatia**	**Foreign countries**	**Unallocated**	**Total**
Sales	1,008,642	588,016	-	**1,596,658**
Cost of goods sold	(597,955)	(378,964)	-	(976,919)
Gross profit	410,687	209,052	-	**619,739**
Operating profit			45,843	**45,843**
Financial expense				(39,914)
Profit before tax				**5,929**
Income tax				-
Profit for the year				**5,929**

The segment trade receivables and liabilities as at 31 December 2005 and for the year then ended are as follows:

(in thousands of HRK)	**Croatia**	**Foreign countries**	**Unallocated**	**Total**
Trade and other receivables	583,944	173,997	-	757,941
Trade and other payables	238,846	45,848	-	284,694
Borrowings	499,959	44,547	-	544,506

All other assets and liabilities of the Company are located in the geographical segment Croatia.

The segment trade receivables and liabilities as at 31 December 2006 and for the year then ended are as follows:

(in thousands of HRK)	**Croatia**	**Foreign countries**	**Unallocated**	**Total**
Trade and other receivables	855,975	170,263	-	1,026,238
Trade and other payables	525,284	59,432	-	584,716
Borrowings	724,672	14,633	-	739,305

NOTE 6 – OTHER GAINS/(LOSSES) – NET

	2006	2005
	(in thousands of HRK)	
Gains on sale of 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 subsidiary (Note 17)	2,192	-
Gains on sale of non-current assets held for trading (Note 18) and non-current assets – net	9,908	618
Gains/(losses) from impairment of investments (Note 17)	9,905	(7,449)
	30,320	**(4,795)**
Foreign exchange losses – net	(2,484)	(4,429)
	27,836	**(9,224)**

NOTE 7 – OTHER REVENUES

	2006	2005
	(in thousands of HRK)	
Revenues from subsidiaries (Note 32)	66,234	30,291
Dividend received	-	355
Interest from time deposits and customers	6,698	2,263
Interest from given loans and intragroup trade receivables (Note 32)	15,276	15,867
Interest from given loans	153	175
Other	330	39
	88,691	**48,990**

NOTE 8 – OTHER EXPENSES

	2006	2005
	(in thousands of HRK)	
Interest from suppliers	1,424	1,421
Intragroup loan receivables written off (Note 32)	635	1,804
	2,059	**3,225**

NOTE 9 – EXPENSES BY NATURE

	2006	2005
	(in thousands of HRK)	
Raw materials and consumables used	529,203	497,665
Change in inventories of work in progress and finished goods	(1,634)	20,936
Staff costs (Note 10)	494,569	447,862
Cost of goods sold	166,600	178,844
Depreciation and amortisation (Note 15 and 16)	117,937	134,213
Advertising and promotion costs	125,559	112,120
Design services and cost of fairs	8,018	7,712
Services	80,914	61,182
Transportation	34,110	34,070
Rental costs	30,483	22,505
Provisions for trade and other receivables	10,090	19,334
Collected trade and other receivables previously provided for	(4,842)	(3,122)
Taxes and contributions irrespective of operating result	16,692	15,004
Insurance premiums – net	4,957	2,371
Entertainment	6,588	6,956
Packaging waste disposal fee	6,769	-
Other expenses	39,270	27,477
Total cost of goods sold, selling and distribution costs and administrative expenses	**1,665,283**	**1,585,129**

NOTE 10 – STAFF COSTS

	2006	2005
	(in thousands of HRK)	
Salaries	443,174	415,658
Share options (Note 24)	13,839	8,861
Termination benefits – regular /i/	1,478	110
Termination benefits – restructuring (Note 28)	15,276	-
Jubilee awards (Note 28)	6,220	10,796
Transportation	6,463	6,585
Other	8,119	5,852
	494,569	**447,862**

As at 31 December 2006, the number of employees at the Company was 4,301 (2005: 4,309).

/i/ In 2006, the Company accrued and paid regular termination benefits in the amount of HRK 1,478 thousand (2005: HRK 110 thousand) for 32 employees (2005: 8 employees).

NOTE 11 – FINANCIAL EXPENSE

	2006	2005
	(in thousands of HRK)	
Interest expense from long-term borrowings	(13,402)	(17,007)
Interest expense from short-term borrowings	(4,916)	(86)
Financial expense from call option on Company shares	(8,399)	-
Interest expense from issued bonds	(15,591)	(9,997)
Cost of early redemption of bonds	(1,755)	-
	(44,063)	(27,090)
Net foreign exchange gains from borrowings	4,149	20,203
	(39,914)	**(6,887)**

NOTE 12 – INCOME TAX

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 20% (2005: 20%) applicable to the Company's profit as follows:

	2006	2005
	(in thousands of HRK)	
Profit before taxation	5,929	13,562
Tax calculated at weighted average tax rates applicable to the Company’s profits	1,186	2,712
Income not subject to tax	(25,305)	(8,468)
Expenses not deductible for tax purposes	11,109	12,923
	(13,010)	7,167
Utilised tax loss	-	(7,167)
Current income tax	**-**	**-**

In accordance with Croatian tax regulations, by the end of 2006 the Company realised tax losses in the amount of HRK 89,186 thousand (2005: HRK 24,139 thousand), which may be utilised up to 2011 at the latest. Unutilised tax losses are not recognised as deferred tax assets in the balance sheet, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

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. There is no material effect on these financial statements.

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. 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)	(2,484)	(4,429)
Financial expense (Note 11)	4,149	20,203
	1,665	**15,774**

NOTE 14 – 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 15 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
At 1 January 2005				
Cost	1,147,710	841,390	33,038	2,022,138
Accumulated depreciation and impairment	(438,511)	(539,903)	-	(978,414)
Net book value	**709,199**	**301,487**	**33,038**	**1,043,724**
Year ended 31 December 2005				
Opening net book amount	709,199	301,487	33,038	1,043,724
Additions	-	3,473	62,307	65,780
Transfer	23,281	41,604	(64,885)	-
Disposals	(8,381)	(604)	(12)	(8,997)
Impairment	-	-	(587)	(587)
Transfer to non-current assets held for sale (Note 18)	(5,610)	-	-	(5,610)
Depreciation (Note 9)	(37,074)	(65,702)	-	(102,776)
Closing net book amount	**681,415**	**280,258**	**29,861**	**991,534**
At 31 December 2005				
Cost	1,157,664	859,062	29,861	2,046,587
Accumulated depreciation and impairment	(476,249)	(578,804)	-	(1,055,053)
Net book value	**681,415**	**280,258**	**29,861**	**991,534**
Year ended 31 December 2006				
Opening net book amount	681,415	280,258	29,861	991,534
Additions	-	898	128,314	129,212
Transfer	10,065	28,423	(38,488)	-
Disposals	(4,400)	(1,870)	(5)	(6,275)
Transfer to non-current assets held for sale (Note 18)	(2,605)	-	-	(2,605)
Depreciation (Note 9)	(35,050)	(59,720)	-	(94,770)
Closing net book amount	**649,425**	**247,989**	**119,682**	**1,017,096**
At 31 December 2006				
Cost	1,161,878	861,451	119,682	2,143,011
Accumulated depreciation and impairment	(512,453)	(613,462)	-	(1,125,915)
Net book value	**649,425**	**247,989**	**119,682**	**1,017,096**

Company buildings and land worth HRK 505,594 thousand (2005: HRK 530,840 thousand) have been mortgaged against the Company's borrowings (Note 27).

Depreciation in the amount of HRK 74,735 thousand (2005: HRK 80,077 thousand) is recorded within cost of goods sold; depreciation in the amount of HRK 8,409 thousand (2005: HRK 9,593 thousand) is recorded within selling and distribution costs; depreciation in the amount of HRK 11,626 thousand (2005: HRK 13,106 thousand) is recorded within general and administrative expenses.

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2006	2005
	(in thousands of HRK)	
Cost of capitalised finance leases	3,471	3,471
Accumulated depreciation	(1,562)	(868)
Net book value	**1,909**	**2,603**

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	Software	Distribution right	Brand	Total
At 1 January 2005				
Cost	96,095	67,694	-	163,789
Accumulated amortisation	(66,027)	(27,078)	-	(93,105)
Net book value	**30,068**	**40,616**	**-**	**70,684**
Year ended 31 December 2005				
Opening net book amount	30,068	40,616	-	70,684
Additions	3,070	-	-	3,070
Disposals	(31)	-	-	(31)
Amortisation (Note 9)	(17,898)	(13,539)	-	(31,437)
Closing net book amount	**15,209**	**27,077**	**-**	**42,286**
At 31 December 2005				
Cost	99,073	67,694	-	166,767
Accumulated amortisation	(83,864)	(40,617)	-	(124,481)
Net book value	**15,209**	**27,077**	**-**	**42,286**
Year ended 31 December 2006				
Opening net book amount	15,209	27,077	-	42,286
Additions /i/	3,449	-	15,500	18,949
Impairment /ii/	-	(1,076)	-	(1,076)
Amortisation (Note 9)	(9,629)	(13,538)	-	(23,167)
Closing net book amount	**9,029**	**12,463**	**15,500**	**36,992**
At 31 December 2006				
Cost	98,032	67,694	15,500	181,226
Accumulated amortisation	(89,003)	(55,231)	-	(144,234)
Net book value	**9,029**	**12,463**	**15,500**	**36,992**

/i/ In 2006, the Company purchased the brand 'Eva' for the manufacture of tinned fish.
/ii/ In 2006, based on the projections approved by the Management, the value of distribution rights of Nestle products was impaired.

Amortisation in the amount of HRK 14 thousand (2005: HRK 12 thousand) is recorded within cost of goods sold; amortisation in the amount of HRK 421 thousand (2005: HRK 420 thousand) is recorded within selling and distribution costs; amortisation in the amount of HRK 22,732 thousand (2005: HRK 31,005 thousand) is recorded within general and administrative expenses.

NOTE 17 – INVESTMENTS IN SUBSIDIARIES

	2006	2005	2006	2005
	Holding in %	**Holding in %**	*(in thousands of HRK)*	
Belupo d.d., Koprivnica	100.00	100.00	157,830	157,830
Koprivnička Tiskarnica d.o.o., Koprivnica /i/	-	100.00	-	14,142
KOTI Nekretnine d.o.o., Koprivnica /i/	100.00	-	3,328	-
Danica d.o.o., Koprivnica /ii/	100.00	100.00	102,216	92,311
Podravka Inženjering d.o.o., Koprivnica	100.00	100.00	20	20
Poni trgovina d.o.o., Koprivnica	100.00	100.00	20	20
Ital-Ice d.o.o., Poreč	100.00	100.00	39,976	39,976
Sana d.o.o., Hoče	100.00	100.00	217	217
Podravka d.o.o., Ljubljana	100.00	100.00	1,925	1,925
Podravka d.o.o., Skopje, Macedonia	100.00	100.00	42	42
Podravka d.o.o., Sarajevo, Bosnia and Herzegovina	100.00	100.00	40	40
Podravka d.o.o., Podgorica, Montenegro	100.00	100.00	1,029	1,029
Podravka-International Deutschland –"Konar" GmbH, Germany	100.00	100.00	1,068	1,068
Podravka d.o.o., Beograd, Srbija /iii/	100.00	100.00	1,148	34
Podravka-International Kft, Budapest, Hungary	100.00	100.00	5,343	5,343
Podravka-International e.o.o.d., Sofia, Bulgaria	100.00	100.00	10	10
Podravka-International Pty Ltd, Sydney, Australia	100.00	100.00	426	426
Podravka-International Sp.z o.o., Warsaw, Poland /iv/	-	100.00	-	277
Podravka-Polska Sp.z o.o., Kostrzyn, Poland /iv/	100.00	100.00	49,717	49,440
Podravka-International s.r.l., Bucharest, Romania	100.00	100.00	84	84
Lagris a.s., Lhota u Luhačovic, Czech Republic	100.00	100.00	56,268	56,268
Podravka-International s.r.o., Bratislava, Slovakia	75.00	75.00	1,034	1,034
Podravka-International USA Inc. Wilmington	100.00	100.00	3	3
			421,744	**421,539**

/i/ In June 2006, a new company KOTI Nekretnine d.o.o. split off from the company Koprivnička tiskarnica d.o.o. with a founding capital of HRK 3,328 thousand. After such split off, the Company's investment in Koprivnička tiskarnica amounted to HRK 10,814 thousand, which was sold for an amount of HRK 18,000 thousand less costs for employee termination benefit amounting to HRK 4,994 thousand. The difference between the selling price less costs for termination benefits and the carrying amount of the investment in the amount of HRK 2,192 thousand is recorded within Other gains/(losses) – net (Note 6).

/ii/ In June 2006, a reversal of impairment of the share in the company Danica d.o.o. was made in the amount of HRK 9,905 thousand and presented within Other gains/(losses) – net (Note 6).

/iii/ In September 2006, a capital contribution was made in the company Podravka d.o.o., Beograd amounting to HRK 1,114 thousand.

/iv/ In November 2006, the Company transferred its entire share in Podravka-International Sp.z o.o., Warsaw to its subsidiary Podravka-Polska Sp.z o.o., Kostrzyn. Thereafter, the company Podravka-International Sp.z o.o., Warsaw was merged with the company Podravka-Polska Sp.z o.o., Kostrzyn, Poland at the carrying amount of the investment.

NOTE 18 – NON-CURRENT ASSETS HELD FOR SALE

	2006	2005
	(in thousands of HRK)	
Property at Baruna Trenka 2, Zagreb /i/	2,605	-
Business premises in Knez Domagoj Street, Koprivnica /ii/	-	5,610
	2,605	**5,610**

/i/ In December 2006, a Decision was made to sell the property in Zagreb.

/ii/ 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).

NOTE 19 – AVAILABLE-FOR-SALE FINANCIAL ASSETS

In the balance sheet as at 31 December 2005, the investment in RTL d.o.o., Zagreb was recorded in the amount of HRK 21,037 thousand. In October 2006, the investment in RTL was sold for an amount of HRK 29,237 thousand. Gains 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	86,546	84,082
Work in progress	40,990	48,126
Finished goods	88,512	80,092
Trade goods	30,795	23,047
	246,843	**235,347**

In 2006, impairment was credited to certain inventories in the amount of HRK 2,239 thousand (2005: HRK 6,389 thousand charged), relating to the assessment of damaged and expired inventories. This is included in the income statement in line item 'cost of goods sold'.

NOTE 21 – TRADE AND OTHER RECEIVABLES

	2006	2005
	(in thousands of HRK)	
Non-current receivables /i/		
Loans given	2,785	3,020
Receivables for loans given to related parties (Note 32)	239,198	237,881
Other receivables and deposits	4,284	5,407
Total non-current receivables	**246,267**	**246,308**
Current receivables		
Trade receivables	238,084	236,576
Less: Provisions for impairment /ii/	(57,193)	(76,346)
Net trade receivables	180,891	160,230
Intragroup trade receivables (Note 32) /iii/	202,477	214,689
Advances to suppliers	-	404
Short-term loans given /iv/	250,000	-
Intragroup short-term loans given (Note 32)	65,785	77,073
Bills of exchange received	29,660	41,131
Other receivables /v/	51,158	18,106
Total current receivables	**779,971**	**511,633**
Total receivables	**1,026,238**	**757,941**

/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	76,346	87,091
Increase	3,851	9,695
Collected	(4,842)	(3,122)
Written off as uncollectible	(18,162)	(17,318)
At 31 December	**57,193**	**76,346**

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’.

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

/iii/ The expense of adjustments of trade receivables within the Group amounted to HRK 4,967 thousand (2005: HRK 9,457 thousand) which is recorded within 'selling and distribution costs', i.e. expenses by nature (Note 9). The Company eliminates its uncollectible trade receivables within the Group, since they are entirely written off.

/iv/ 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.

/v/ Other receivables recorded as at 31 December are as follows:

	2006	**2005**
	(in thousands of HRK)	
Receivables from related parties for distribution of profit (Note 32)	25,808	1,995
Receivables for accrued interest from loans given to related parties (Note 32)	1,345	4,339
VAT receivable	15,960	-
Prepaid withholding tax receivable	155	2,005
Receivables from employees	2,208	1,613
Prepaid expenses	981	4,647
Amounts due from settlement agreements	3	570
Other receivables – gross	6,266	3,233
Impairment of other receivables	(1,568)	(296)
	51,158	**18,106**

In 2006, impairment of other receivables was recorded in the amount of HRK 1,272 thousand (2005: HRK 181 thousand) within 'selling and distribution costs', i.e. expenses by nature (Note 9).

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**

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

/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	80,480	77,321
Cash in hand	187	190
Cheques received	8	14
	80,675	**77,525**

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	17,138	(21,159)	1,621,980
Purchase of treasury shares	(11,000)	-	-	(3,440)	(3,440)
Employee share options:					
- options exercised	21,667	-	117	5,026	5,143
- fair value of options	-	-	8,861	-	8,861
At 31 December 2005	**5,337,847**	**1,626,001**	**26,116**	**(19,573)**	**1,632,544**
At 1 January 2006	5,337,847	1,626,001	26,116	(19,573)	1,632,544
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	-	(2,386)	16,595	14,209
- fair value of options	-	-	13,839	-	13,839
Call option on Company shares /ii/	-	-	(238,876)	-	(238,876)
At 31 December 2006	**5,400,314**	**1,626,001**	**(197,646)**	**(6,711)**	**1,421,644**

NOTE 24 – SHAREHOLDERS' EQUITY (continued)

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.

/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 applicable for the periods 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	202.79	142,708	191.96	147,375
Granted	-	-	296.69	18,333
Exercised	193.32	(62,334)	201.79	(21,667)
Lapsed	-	-	296.69	(1,333)
At 31 December	**210.79**	**80,374**	**202.79**	**142,708**

As at 31 December 2006, 80,374 outstanding options (2005: 142,708 options) were granted. In 2006, 20,000 options (2005: 34,000 options), which were exercisable, were not granted. Options exercised in 2006 resulted in 62,334 options (2005: 21,667 options), being issued at an average price of HRK 193.32 (2005: HRK 201.79). The related weighted average market price at the time of exercise was HRK 402.83 (2005: HRK 308.66).

NOTE 24 – SHAREHOLDERS' EQUITY (continued)

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	153.61	-	8,000
2007	200.77	-	26,000
2008	184.36	20,000	42,334
2009	198.04	47,374	50,374
2010	296.69	13,000	16,000
		80,374	**142,708**

Based on new Employment contracts, Management is not entitled to share options. The fair value of options granted in 2005, whose value was determined using the intrinsic value method amounted to HRK 192 thousand as at 31 December 2005.

/ii/ Call option on Company shares

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

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

NOTE 25 – RESERVES

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Reserves for treasury shares**	**Total**
At 1 January 2005	3,566	39,286	22,479	65,331
Transfer to reserves /i/	1,636	1,446	2,168	5,250
At 31 December 2005	**5,202**	**40,732**	**24,647**	**70,581**
At 1 January 2006	5,202	40,732	24,647	70,581
Transfer		19,921	(19,921)	-
Dividend approved /ii/	-	(19,921)	-	(19,921)
Transfer to reserves /i/	678	644	-	1,322
At 31 December 2006	**5,880**	**41,376**	**4,726**	**51,982**

NOTE 25 – RESERVES (continued)

The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares 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 General Assembly of the Company 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.

/ii/ 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.

NOTE 26 – TRADE AND OTHER PAYABLES

	2006	**2005**
	(in thousands of HRK)	
Trade payables	242,139	175,330
Trade payables to other related companies	30,301	42,370
Call option on Company shares (Note 24 /ii/) /i/	247,275	-
Other payables /ii/	65,001	66,994
	584,716	**284,694**

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

/ii/ Other payables are as follows:

	2006	**2005**
	(in thousands of HRK)	
Salaries and other employee benefits	36,487	35,754
Dividend payable	2,213	2,117
Interest payable on bonds and borrowings	15,163	11,337
Packaging waste disposal fee payable	7,406	-
Net VAT payable	-	1,300
Advances received for disposal of property	-	12,281
Other	3,732	4,205
	65,001	**66,994**

NOTE 27 – BORROWINGS

	2006	2005
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	90,567	192,484
Banks in foreign countries	-	15,161
Bonds issued	372,158	199,142
Finance lease	1,212	1,911
	463,937	**408,698**
Current borrowings		
Banks in Croatia	258,454	105,022
Banks in foreign countries	14,633	29,386
Bonds issued	1,182	-
Finance lease	692	696
Other	407	704
	275,368	**135,808**
Total borrowings	**739,305**	**544,506**

Bank borrowings in the amount of HRK 206,691 thousand (2005: HRK 322,732 thousand) are secured by mortgages over the Company's land and buildings (Note 15).

The gross finance lease liability is as follows:

	2006	2005
	(in thousands of HRK)	
Up to 1 year	770	806
Between 1 and 5 years	1,268	2,045
Future financial expense	(134)	(244)
Net book value of finance lease liability	1,904	2,607

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

	2006	2005
	(in thousands of HRK)	
Up to 1 year	692	696
Between 1 and 5 years	1,212	1,911
	1,904	2,607

NOTE 27 – BORROWINGS (continued)

The exposure of the Company'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	236,968	126,611
6 – 12 months	52,356	52,030
1 – 5 years	432,449	337,731
Over 5 years	17,532	28,134
	739,305	**544,506**

The maturity of non-current borrowings is as follows:

	2006	**2005**
	(in thousands of HRK)	
Between 1 and 2 years	43,668	316,150
Between 2 and 5 years	402,737	64,414
Over 5 years	17,532	28,134
	463,937	**408,698**

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	5.10	-	4.00	4.41	-
Banks in foreign countries	-	5.76	-	-	4.57	-
Bonds issued	5.32	5.00	-	-	5.00	-
Finance lease	-	6.16	-	-	6.16	-
Current borrowings						
Banks	4.84	4.73	-	-	-	-
Other	4.50		-	4.50	-	-

NOTE 27 – BORROWINGS (continued)

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	90,567	192,484	88,898	194,260
Banks in foreign countries	-	15,161	-	15,319
Bonds issued	372,158	199,142	366,750	200,735
Finance lease	1,212	1,911	1,260	2,007
	463,937	**408,698**	**456,908**	**412,321**

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 and the discounting effect is not significant.

NOTE 27 – BORROWINGS (continued)

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

	2006	2005
	(in thousands of HRK)	
HRK	588,565	136,703
EUR	150,741	407,803
	739,306	**544,506**

The Company has the following undrawn borrowing facilities:

	2006	2005
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	48,698	83,123
	48,698	**83,123**

The stated 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 – PROVISIONS

	Employee benefits	Termination benefits	Legal proceedings	Total
Analysis of total provisions as at 31 December 2005:				
Non-current	8,164	-	2,540	10,704
Current	1,461	-	-	1,461
At 1 January 2006	9,625	-	2,540	12,165
Expense/(income) in the income statement:				
- Increase in provisions	6,698	15,276	2,384	24,358
Utilised during the year	(1,550)	-	(1,151)	(2,701)
At 31 December 2006	**14,773**	**15,276**	**3,773**	**33,822**
Analysis of total provisions as at 31 December 2006:				
Non-current	12,643	-	3,773	16,416
Current	2,130	15,276	-	17,406
	14,773	**15,276**	**3,773**	**33,822**

NOTE 28 – 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 provision relates to the estimated acquired rights to jubilee awards that will be paid after 2007.

A part of the increase in provisions amounting to HRK 6,220 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 478 thousand which is recorded under other staff costs (Note 10).

The current amount of employee benefits includes HRK 1,652 thousand of jubilee awards and HRK 478 thousand of annual bonuses to executive directors that will be paid in 2007.

Termination benefits

Based on adopted restructuring plans, as a result of operating requirements the Company reached a redundancy agreement with 93 employees in December 2006, ensuring payment of a stimulating termination benefit in January 2007.

Legal proceedings

This provision relates to certain legal proceedings initiated against the Company. The provision expense is stated in the income statement under administrative expenses. As at 31 December 2006, it is expected that the provision will be utilised after 2007.

Based on the expert opinion of legal counsel, the Company's 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.

NOTE 29 – COMMITMENTS

In 2006, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 61,013 thousand (2005: HRK 13,364 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, refrigerator show-cases and IT equipment are as follows:

	2006	**2005**
	(in thousands of HRK)	
Not later than 1 year	19,522	17,569
Later than 1 year and not later than 5 years	20,553	16,840
	40,075	**34,409**

NOTE 30 – CONTINGENCIES

	2006	2005
	(in thousands of HRK)	
Legal proceedings	810	1,209
Guarantees – external	21,300	26,788
Guarantees – Group	344,128	385,712
	366,238	**413,709**

With respect to other legal proceedings and guarantees granted, contingent liabilities have not been recognised in the balance sheet as at 31 December, as Management estimated that as at 31 December 2006 and 2005 no contingent liability will arise for the Company.

NOTE 31 – CASH GENERATED FROM OPERATIONS

(in thousands of HRK)	**Note**	**2006**	**2005**
Net profit		**5,929**	**13,562**
Depreciation and amortisation	15, 16	117,937	134,213
Gain on disposal of available-for-sale assets and tangible assets	6	(9,908)	(618)
Provisions for impairment of current assets		3,009	22,601
Provisions for non-current assets	16, 15	1,076	587
Disposal of non-current tangible assets		3,244	6,247
Provisions for investments	6	(9,905)	7,449
Provisions for share premium	24	12,955	7,306
Gain on sale of financial assets at fair value, available-for-sale financial assets and investment in Group company	6	(10,507)	(2,036)
Interest income	7	(22,127)	(18,344)
Dividend income	7	-	(355)
Interest expense	8, 11	43,732	28,511
Effect of movements in foreign exchange rate	11	(4,149)	(20,732)
Other items not affecting cash		567	1,498
Movements in working capital:			
Movements in inventories		(9,257)	26,055
Movements in trade receivables		(46,368)	(58,801)
Movements in other current assets		10,666	(3,065)
Movements in trade payables		53,316	(9,623)
Movements in other liabilities		15,814	30,095
Cash generated from operations		**156,024**	**164,550**

NOTE 32 – RELATED PARTY TRANSACTIONS

Related party transactions include operating business transactions with Podravka Group companies. Items resulting from these transactions and balances as at 31 December 2006 and 31 December 2005 are as follows:

(all amounts are expressed in thousands of HRK)	**Note**	**2006**	**2005**
REVENUES			
Sales of products and trade goods	5	367,162	354,867
Sales of services	5	101,007	120,659
		468,169	**475,526**
Interest income	7	**15,276**	**15,867**
EXPENSES			
Key management and executive directors compensation			
Salaries		24,148	21,968
Share-based payments through income statement	10	13,839	8,861
		7,629	766
		45,616	**31,595**
Income from investments	7	**66,234**	**30,291**
Loan receivables	21		
- non-current:			
At beginning of year		300,507	254,353
Increase during the year		64,287	87,352
Repayments received		(59,748)	(41,111)
Other movements		-	-
Foreign exchange difference		(63)	(87)
Accrued interest		(16,099)	(16,701)
Interest collected		(18,255)	(16,348)
At end of year		304,983	300,507
Maturity: one year or less		(65,785)	(62,626)
		239,198	**237,881**

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

(all amounts are expressed in thousands of HRK)	**Note**	**2006**	**2005**
Loan receivables			
- current:	21		
At beginning of year		14,447	43,286
Increase during the year		49,641	9,750
Repayments received		(62,882)	(51,409)
Other movements		(641)	13,367
Foreign exchange difference		(565)	(547)
Accrued interest		2,500	3,137
Interest collected		2,485	3,156
At end of year		-	14,447
Maturity: one year or less		65,785	62,626
		65,785	**77,073**
Total loan receivables		**304,983**	**314,954**

The recorded receivables from related parties include long-term loans to subsidiaries as follows:

	Interest rate	**2006**	**2005**
		(in thousands of HRK)	
Belupo d.d., Koprivnica	5% p.a.	215,118	191,241
Danica d.o.o., Koprivnica	4.84% p.a.	58,466	72,223
Poni d.o.o., Koprivnica	5% p.a.	19,847	25,109
Ital-Ice d.o.o., Poreč	5% p.a.	3,000	-
Podravka d.o.o., Beograd	1m EURIBOR + 2%	8,552	11,934
		304,983	**300,507**

The effective interest rate is 4.97% p.a.

The maturity of long-term borrowings is as follows:

	2006	**2005**
	(in thousands of HRK)	
Between 1 and 2 years	65,498	62,036
Between 2 and 5 years	173,700	172,408
Over 5 years	-	3,437
	239,198	**237,881**

NOTE 32 – RELATED PARTY TRANSACTIONS (continued)

Short-term loans receivable

	Effective interest rate			
	2006	**2005**	**2006**	**2005**
			(in thousands of HRK)	
Poni trgovina d.o.o., Koprivnica	-	5.00%	-	4,750
Ital-Ice d.o.o., Poreč	-	6.00%	-	4,000
Podravka-Polska Sp. z o.o., Kostrzyn	-	3.89%	-	5,697
			-	**14,447**

	Note	2006	2005
Trade receivables	21	**202.477**	**214.689**
Other receivables	21		
Receivables from related parties for distribution of profit		25,808	1,995
Receivables for accrued interest from intragroup loans		1,345	4,339
		27,153	**6,334**

Trade and other payables

	Note	2006	2005
Trade payables	25	30,301	42,370
Guarantees	29	344,128	385,712