PODRAVKA d.d.

FINANCIAL STATEMENTS
31 DECEMBER 2005

PRICEWATERHOUSECOOPERS

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REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF PODRAVKA d.d., Koprivnica

We have audited the accompanying parent company balance sheet of Podravka d.d. (the "Company") as at 31 December 2005 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 2 to 41 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

PricewaterhouseCoopers d.o.o.

PricewaterhouseCoopers d.o.o.
Zagreb, 15 March 2006

PODRAVKA d.d.

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

(in thousands of HRK)	Note	2005	2004
Sales	5	1,569,037	1,541,495
Cost of goods sold		(960,722)	(949,995)
Gross profit		**608,315**	**591,500**
Other (losses)/gains – net	6	(9,224)	2,252
General and administrative expenses		(212,658)	(196,917)
Selling and distribution costs		(411,749)	(375,019)
Other revenues	7	48,990	48,297
Other expenses	8	(3,225)	(8,521)
Operating profit		**20,449**	**61,592**
Net financial expense	11	(6,887)	(34,007)
Profit before tax		**13,562**	**27,585**
Income tax expense	12	-	-
Net profit		**13,562**	**27,585**

The financial statements set out on pages 2 to 41 were approved by the Management Board on 15 March 2006.

President of the Management Board

Darko Marinac

The notes on pages 6 to 41 are an integral part of these financial statements.

PODRAVKA d.d.

BALANCE SHEET

AS AT 31 DECEMBER 2005

(in thousands of HRK)	Note	As at 31 December 2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	15	991,534	1,043,724
Intangible assets	16	42,286	70,684
Investments in subsidiaries	17	421,539	428,985
Financial assets at fair value through profit or loss	19	21,150	18,423
Trade and other receivables	21	246,308	181,488
Total non-current assets		**1,722,817**	**1,743,304**
Current assets			
Inventories	20	235,347	273,091
Trade and other receivables	21	511,633	608,390
Non-current assets held for sale	18	5,610	-
Cash and cash equivalents	22	77,525	24,683
Total current assets		**830,115**	**906,164**
Total assets		**2,552,932**	**2,649,468**
LIABILITIES			
Non-current liabilities			
Long-term debt	26	408,698	560,279
Provisions	27	10,704	-
Total non-current liabilities		**419,402**	**560,279**
Current liabilities			
Trade and other payables	25	284,694	278,512
Short-term borrowings	26	135,808	95,781
Provisions	27	1,461	-
Total current liabilities		**421,963**	**374,293**
Total liabilities		**841,365**	**934,572**
Shareholders' equity			
Share capital	23	1,632,544	1,621,980
Reserves	24	70,581	65,331
Retained earnings		8,442	27,585
Total shareholders' equity		**1,711,567**	**1,714,896**
Total liabilities		**2,552,932**	**2,649,468**

The notes on pages 6 to 41 are an integral part of these financial statements.

PODRAVKA d.d.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2005

(in thousands of HRK)	Note	Share capital	Reserves	Retained earnings	Total
Balance at 1 January 2004		1,599,620	79,677	(3,956)	1,675,341
Net profit for the year		-	-	27,585	27,585
Total recognised income for 2004		-	-	27,585	27,585
New issue of shares	23	2,880	-	-	2,880
Coverage of loss		-	(3,956)	3,956	-
Dividend approved	24	-	(10,390)	-	(10,390)
Options exercised	23	14,343	-	-	14,343
Fair value of share options	23	5,137	-		5,137
Balance at 31 December 2004		**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	23	(3,440)	-	-	(3,440)
Options exercised	23	5,143	-	(766)	4,260
Fair value of share options	23	8,861	-	-	8,861
Dividend approved		-	-	(26,689)	(26,689)
Transfer to reserves	24	-	5,250	(5,250)	-
Balance at 31 December 2005		**1,632,544**	**70,581**	**8,442**	**1,711,567**

The notes on pages 6 to 41 are an integral part of these financial statements.

PODRAVKA d.d.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2005

(in thousands of HRK)	Note	2005	2004
Cash flows from operating activities			
Cash generated from operations	30	164,550	157,076
Tax paid		-	-
Interest paid		(28,200)	(27,784)
		136,350	**129,292**
Cash flows from investing activities			
Acquisition of equity interest, net of cash acquired	17	(3)	(2,257)
Purchase of tangible and intangible assets	15, 16	(68,850)	(70,617)
Disposal of tangible and intangible assets	6, 15, 16	3,399	984
Long-term loans given and deposits		(501)	(8,886)
Repayment of long-term loans given and deposits		70,629	56,310
Purchase of trading securities	19	(6,679)	(24,479)
Sale of trading securities		5,891	20,900
Short-term loans given and deposits		(1,439)	(44,767)
Repayment of short-term loans given and deposits		11,521	10,809
Interest received		15,785	18,120
Dividends received	7	355	343
		30,108	**(43,540)**
Cash flows from financing activities			
Purchase of treasury shares		(3,440)	-
Sale of treasury shares		5,026	14,343
Proceeds from long-term borrowings		19,043	83,722
Repayment of long-term borrowings		(108,545)	(101,398)
Proceeds from short-term borrowings		14,242	162,162
Repayment of short-term borrowings		(14,474)	(257,828)
Proceeds from bonds issued		-	15,829
Dividends paid		(25,468)	(10,708)
		(113,616)	**(93,878)**
Net increase/(decrease) in cash and cash equivalents		**52,842**	**(8,126)**
Cash and cash equivalents at beginning of year	22	24,683	32,809
Cash and cash equivalents at the end of year	22	77,525	24,683

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 2005, the Company's shares were listed on the public joint stock company listing on the Zagreb Stock Exchange

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS).

The financial statements of the Company have been prepared under the historical cost convention (acquisition cost), as modified by the revaluation of financial assets at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the 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 prepared these stand-alone financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements in accordance with IFRS for the Company and its subsidiaries (the "Group"). In the consolidated financial statements, subsidiary undertakings - 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 stand-alone financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2005 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Company from 1 January 2005. Listed below are those new or amended standards or interpretations, which are or in the future could be relevant to the Company's operations and the nature of their impact on the Company's accounting policies.

All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2004, unless otherwise described below.

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 2 (revised 2003) Inventories
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after the Balance Sheet Date

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 28 (revised 2003) Investments in Associates
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003) Earnings per Share
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets
IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement
IAS 39 Amendment (revised 2004) Transition and Initial Recognition of Financial Assets and Financial Liabilities
IAS 40 (revised 2003) Investment Property
IFRS 2 (issued 2004) Share-based Payments
IFRS 3 (issued 2004) Business Combinations
IFRS 4 (issued 2004) Insurance Contracts
IFRS 5 (issued 2004) Non-current Assets Held for Sale and Discontinued Operations
IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities
IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments

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

- IAS 1 (revised 2003) has affected the income statement presentation and other disclosures.
- IAS 24 (revised 2003) has affected the identification of related parties, specifically, key management compensation information has been added.
- The adoption of IAS 39 (revised 2004) has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss.
- The adoption of IFRS 2 Share-based payments has resulted in a change in the accounting policy relating to the disclosure of share option rights.
- The adoption of IFRS 5 resulted in a different classification and measurement of non-current assets held for sale.

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

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

The adoption of IFRS 2 resulted in:

	2005	**2004**
Increase in share premium (in thousands of HRK)	8,861	5,137
Increase in general and administrative expenses (in thousands of HRK)	8,861	5,137

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Company require retrospective application other than IAS 39 does not require the classification of financial assets as at 'fair value through profit or loss' of previously recognised financial assets.

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

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

- *IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006).* Since the Company has no defined benefit plans, this amendment is not relevant.
- *IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006).* This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Company believes that this amendment should not have a significant impact on the classification of financial instruments, as the Company should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss. The Company will apply this amendment beginning 1 January 2006.
- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006).* This amendment requires issued financial guarantees to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date. Management is still considering the impact of this amendment.
- *IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards (effective from 1 January 2006).* This amendment is not relevant to the Company's operations as the Company is not a first-time adopter of IFRS.
- *IFRS 6 and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006).* IFRS 6 and related amendment are not relevant, as the Company does not carry out exploration activities for mineral resources.
- *IFRS 7, Financial Instruments: Disclosures (effective from 1 January 2007).* IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Company will apply IFRS 7 beginning 1 January 2007, and the related impact is still under consideration by management.
- *Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007).* The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Company assessed the impact of the amendment to IAS 1, and concluded that no additional disclosures are necessary in the financial statements, as the Company does not have any specific internal or external requirements related to capital management.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

- *IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006).* IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement, when: (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets; and (b) the arrangement conveys a right to use the asset(s). Management is still considering the impact of IFRIC 4 to the Company's operations.
- *IFRIC 5, Rights to interest arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006).* IFRIC 5 is not relevant to the Company's operations.
- *IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective from 1 January 2006).* IFRIC 6 is not relevant to the Company's industry.
- *IFRIC 7, Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (effective from 1 January 2007).* IFRIC 7 is not relevant as the Company does not operate in a hyperinflationary environment.
- *IFRIC 8, Scope of IFRS 2 (effective from 1 January 2007).* IFRIC 8 will be applied as of 1 January 2007.
- *IFRIC 9, Reassessment of Embedded Derivatives (effective from 1 January 2007).* Management is still considering the impact of IFRIC 9 on the Company's operations.

2.2 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Company's entities 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 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.

Impairment is tested annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Dividend and share income is recorded in the income statement when the Company decides to withdraw it.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Property, plant and equipment

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

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

Land and assets under construction are not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost over their estimate useful lives. Depreciation is calculated for each asset until the asset is fully depreciated or to its residual values if significant.

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

	%
Buildings	2.00 – 10.00
Equipment	3.00 – 37.00

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

2.5 Intangible assets

(a) Licences and other rights

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

(b) 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).

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Impairment of non-financial assets

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

2.7 Non-current assets held for sale

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

2.8 Financial assets

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

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

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

(b) Loans and receivables

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

Regular purchases and sales of investments are recognised on trade-date – the date on which the Company commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Loans and receivables are carried at amortised cost using the effective interest method. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 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 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.

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 testing of loans and receivables is described in Note 2.11.

2.9 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 or 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.

2.10 Inventories

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

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

Small inventory and tools are expensed when put into use.

2.11 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 Company 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'.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.12 Cash and cash equivalents

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

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the 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.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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

2.15 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.16 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.

(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.

(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. The long-term employee benefit liability includes assumptions of the likely number of staff to whom the benefit will be payable, estimated benefit cost and the discount rate.

(d) Short-term employee benefits

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

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.17 Provisions

Provisions for restructuring costs, warranty 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. Restructuring provisions represent mainly employee termination benefits.

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

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

(a) Sales of goods

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

Income from the retail sales of goods are recognised when the 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.

(b) Sales of services

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

(c) Interest income

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

(d) Dividend income

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

2. 19 Dividend distribution

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

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

The majority of the 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.

(b) Credit risk

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

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to meet all obligations. The 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 no significant interest-bearing assets, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings. 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 nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

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

NOTE 4 - CRITICAL ACCOUNTING ESTIMATES

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Other 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.

NOTE 5 – SALES

Sales by types of products:

	2005		2004	
	Sales		**Sales**	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Food and beverages	1,083,977	69.1	1,098,821	71.3
Food and beverages – Group	354,867	22.5	313,523	20.3
Services	9,534	0.7	10,246	0.7
Services – Group	120,659	7.7	118,905	7.7
	1,569,037	**100**	**1,541,495**	**100**

Domestic and foreign sales:

	2005		2004	
	Sales		**Sales**	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Domestic sales	895,886	57.1	919,399	59.7
Domestic sales – Group	111,033	7.1	113,028	7.3
Foreign sales	197,625	12.6	191,058	12.4
Foreign sales – Group	364,493	23.2	318,010	20.6
	1,569,037	**100**	**1,541,495**	**100**

NOTE 6 – OTHER (LOSSES)/GAINS – NET

	2005	2004
	(in thousands of HRK)	
Gains on sale of financial assets at fair value through profit or loss (Note 19)	2,036	690
Gains/(losses) on sale of non-current assets – net	618	(575)
Gains/(losses) from impairment of investments (Note 17)	(7,449)	1,102
	(4,795)	1,217
Foreign exchange gains/(losses) – net	(4,429)	1,035
	(9,224)	**2,252**

NOTE 7 – OTHER REVENUES

	2005	2004
	(in thousands of HRK)	
Revenues from subsidiaries (Note 31)	30,291	17,103
Dividend received	355	343
Interest from time deposits and customers	2,263	8,157
Interest from given loans and intragroup trade receivables (Note 31)	15,867	22,435
Interest from given loans	175	116
Other	39	143
	48,990	**48,297**

NOTE 8 – OTHER EXPENSES

	2005	2004
	(in thousands of HRK)	
Interest from suppliers	1,421	4,197
Loan receivables written off	-	4,324
Intragroup loan receivables written off (Note 31)	1,804	-
	3,225	**8,521**

NOTE 9 – EXPENSES BY NATURE

	2005	2004
	(in thousands of HRK)	
Raw materials and consumables used	497,665	521,588
Change in inventories of work in progress and finished goods	20,936	(8,168)
Staff costs (Note 10)	447,862	421,137
Cost of goods sold	178,844	170,403
Depreciation and amortisation (Note 15 and 16)	134,213	138,120
Advertising and promotion costs	112,120	100,948
Design services and cost of fairs	7,712	5,949
Services	61,182	49,765
Transportation	34,070	34,286
Rental costs	22,505	21,017
Net provisions for trade receivables	16,212	7,260
Taxes and contributions irrespective of operating result	15,004	17,762
Insurance premiums – net	2,371	2,262
Entertainment	6,956	6,049
Other	27,477	33,553
Total cost of goods sold, selling and distribution costs and administrative expenses	**1,585,129**	**1,521,931**

NOTE 10 – STAFF COSTS

	2005	2004
	(in thousands of HRK)	
Salaries	415,658	390,125
Share options (Note 23)	8,861	5,137
Termination benefits /i/	110	13,702
Awards /ii/	10,796	1,127
Transportation	6,585	6,233
Other	5,852	4,813
	447,862	**421,137**

As at 31 December 2005, the number of employees at the Company was 4,309 (2004: 4,249).

/i/ In 2005, the Company accrued and paid termination benefits in the amount of HRK 110 thousand (2004: HRK 13,702 thousand) for 8 employees (2004: 117 employees).

/ii/ The amount of HRK 9,364 thousand relates to the employees' right to jubilee awards, which is recorded in long-term provisions (Note 27). In 2004, these expenses were included in the period when they were paid.

NOTE 11 – FINANCIAL EXPENSE

	2005	2004
	(in thousands of HRK)	
Interest expense from long-term borrowings	(17,007)	(20,552)
Interest expense from short-term borrowings	(86)	(3,310)
Interest expense from issued bonds	(9,997)	(9,093)
Other	-	(3,023)
	(27,090)	(35,978)
Net foreign exchange gains from borrowings	20,203	1,971
	(6,887)	**(34,007)**

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% (2004: 20%) applicable to the Company's profit as follows:

	2005	2004
	(in thousands of HRK)	
Profit before taxation	13,562	27,585
Tax calculated at weighted average tax rates applicable to the Company's profits	2,712	5,517
Income not subject to tax	(8,468)	(4,270)
Expenses not deductible for tax purposes	12,923	4,096
	7,167	5,343
Utilised tax loss	(7,167)	(5,343)
Current income tax	-	-

In accordance with Croatian tax regulations, by the end of 2005 the Company realised tax losses in the amount of HRK 24,139 thousand (2004: HRK 132,141 thousand), which may be utilised up to 2008 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 2004, the Croatian tax authorities have carried out a full-scope tax audit of the Company's income tax and VAT returns for the periods 2002 and 2003. In accordance with local regulations, the tax authorities may at any time inspect the Company's books and records within 3 years subsequent to the year in which the tax liability is reported, and may impose additional tax assessments and penalties. 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:

	2005	2004
	(in thousands of HRK)	
Other (losses)/gains– net (Note 6)	(4,429)	1,035
Financial expense (Note 11)	20,203	1,971
	15,774	**3,006**

NOTE 14 – DIVIDENDS PER SHARE

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

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	Land and buildings	Equipment	Assets in course of construction	Total
At 1 January 2004				
Cost	1,106,586	809,110	49,216	1,964,912
Accumulated depreciation	(400,935)	(475,987)	-	(876,922)
Net book value	**705,651**	**333,123**	**49,216**	**1,087,990**
Year ended 31 December 2004				
Opening net book amount	705,651	333,123	49,216	1,087,990
Additions	3,509	110	58,593	62,212
Transfer	37,133	40,204	(77,337)	-
Transfers to subsidiaries	(266)	8	3,351	3,093
Disposals	(292)	(297)	(785)	(1,374)
Impairment	-	(822)	-	(822)
Depreciation	(36,536)	(70,839)	-	(107,375)
Closing net book amount	**709,199**	**301,487**	**33,038**	**1,043,724**
At 31 December 2004				
Cost	1,147,710	841,390	33,038	2,022,138
Accumulated depreciation	(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	-	3,466	62,257	65,723
Transfer	23,281	41,604	(64,885)	-
Transfers to subsidiaries	-	7	50	57
Disposals	(2,136)	(602)	(12)	(2,750)
Impairment	(6,245)	(2)	(587)	(6,834)
Transfer to assets held-for-sale (Note 18)	(5,610)	-	-	(5,610)
Depreciation	(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	(476,249)	(578,804)	-	(1,055,053)
Net book value	**681,415**	**280,258**	**29,861**	**991,534**

Company buildings and land worth HRK 530,840 thousand (2004: HRK 490,408 thousand) have been mortgaged against the Company's borrowings.

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2005	2004
	(in thousands of HRK)	
Cost of capitalised finance leases	3,471	3,471
Accumulated depreciation	(868)	(174)
Net book value	**2,603**	**3,297**

NOTE 16 – INTANGIBLE ASSETS

(in thousands of HRK)	Software	Distribution right	Other	Total
At 1 January 2004				
Cost	87,106	67,694	3,929	158,729
Accumulated amortisation	(48,888)	(13,539)	-	(62,427)
Net book value	**38,218**	**54,155**	**3,929**	**96,302**
Year ended 31 December 2004				
Opening net book amount	38,218	54,155	3,929	96,302
Additions	8,692	-	(3,380)	5,312
Disposals	(6)	-	(179)	(185)
Amortisation	(17,206)	(13,539)	-	(30,745)
Closing net book amount	**29,698**	**40,616**	**370**	**70,684**
At 31 December 2004				
Cost	95,725	67,694	370	163,789
Accumulated amortisation	(66,027)	(27,078)	-	(93,105)
Net book value	**29,698**	**40,616**	**370**	**70,684**
Year ended 31 December 2005				
Opening net book amount	29,698	40,616	370	70,684
Additions	-	-	3,070	3,070
Transfer	3,327	-	(3,327)	-
Disposals	(31)	-	-	(31)
Amortisation	(17,898)	(13,539)	-	(31,437)
Closing net book amount	**15,096**	**27,077**	**113**	**42,286**
At 31 December 2005				
Cost	98,960	67,694	113	166,767
Accumulated amortisation	(83,864)	(40,617)	-	(124,481)
Net book value	**15,096**	**27,077**	**113**	**42,286**

NOTE 17 – INVESTMENTS IN SUBSIDIARIES

	2005	2004	2005	2004
	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	100.00	100.00	14,142	14,142
Danica d.o.o., Koprivnica	100.00	100.00	92,311	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 /i/	100.00	100.00	39,976	47,425
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, Serbia and 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, Serbia and Montenegro	100.00	100.00	34	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	100.00	100.00	277	277
Podravka-Polska Sp.z o.o., Kostrzyn, Poland	100.00	100.00	49,440	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
Lagris s r.o., Zvolen, Slovakia /ii/	-	75.00	-	996
Podravka-International s.r.o., Bratislava, Slovakia /i/	75.00	100.00	1,034	38
Podravka-International USA Inc. Wilmington /iii/	100.00	-	3	-
			421,539	**428,985**

/i/ In 2005, impairment was recorded for the holding in Ital-Ice d.o.o., Poreč in the amount of HRK 7,449 thousand (2004: Podravka-International s.r.o., Bratislava, Slovakia in the amount of HRK 3,739 thousand).

/ii/ In 2005, Lagris s.r.o., Zvolen, Slovakia merged with Podravka-International s.r.o., Bratislava, Slovakia. The 25% holding in Podravka-International s.r.o., Bratislava, Slovakia is owned by Lagris a.s., Lhota in Luhačovic, Czech Republic.

/iii/ In 2005, the new subsidiary Podravka-International USA Inc. Wilmington was established.

NOTE 18 – NON-CURRENT ASSETS HELD FOR SALE

	2005	2004
	(in thousands of HRK)	
Business premises in Knez Domagoj Street, Koprivnica	5,610	-

/i/ In September 2005, the Company concluded a Contract on the sale of land and buildings on the location in Knez Domagoj Street, Koprivnica. The net book amount of the sold properties is HRK 5,610 thousand, while the contracted sales price is EUR 2,075 thousand, equalling HRK 15,306 thousand as at 31 December 2005. The contracted amount will be paid in 5 instalments of EUR 415 thousand in the period from 30 September 2005 to 31 January 2006. In accordance with the contract, after settling the last instalment, the buyer will obtain ownership over the property and the right to register title to the stated property.

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

	2005	2004
	(in thousands of HRK)	
Investments in:		
RTL d.o.o., Zagreb	21,037	14,458
EKO-OZRA d.o.o.	100	-
Other	13	3,965
	21,150	**18,423**

According to management estimate, the fair value of investments approximates their carrying amount.

Movements during the year are as follows:

	2005	2004
	(in thousands of HRK)	
Opening net book value	18,423	14,655
Additions /i/	6,679	24,479
Disposals /ii/	(3,952)	(20,502)
Impairment of assets	-	(209)
Closing net book value	**21,150**	**18,423**

/i/ Total additions include the following:

- In January and October 2005, the investment in RTL d.o.o. was increased by the amounts of HRK 1,285 thousand and HRK 5,294 thousand (2004: HRK 14,199 thousand), as part of the capital increase in RTL. The equity interest of 8.5% remained unchanged.
- In November 2005, the Company made an equity contribution in the company EKO OZRA d.o.o. in the amount of HRK 100 thousand. As at 31 December 2005, the equity interest in the stated company was 9.9%.
- At the beginning of 2004, the Company paid-in an additional amount of HRK 10,280 thousand as an increase in the investment in Dinova d.o.o.

/ii/ Total disposals include the following:

- In August and September 2005, shares in the following companies were sold: Gospodarsko kreditna banka Zagreb, Croatia osiguranje Zagreb, Riviera Holding Poreč and Istarska kreditna banka Umag.
- In April 2004, the entire interest in Dinova d.o.o. with a book value of HRK 19,000 thousand was sold at a price of HRK 20,900 thousand, and the difference between the sales price and the book value in the amount of HRK 1,900 thousand was recorded as a gain from interests sold as part of other (losses)/gains – net (Note 6).

NOTE 20 – INVENTORIES

	2005	2004
	(in thousands of HRK)	
Raw materials and supplies	84,082	93,052
Work in progress	48,126	62,422
Finished goods	80,092	86,712
Trade goods	23,047	30,905
	235,347	**273,091**

In 2005, impairment was recorded for certain inventories in the amount of HRK 6,389 thousand (2004: HRK 1,014 thousand), 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

	2005	2004
	(in thousands of HRK)	
Non-current receivables		
Flats and sale of flats via loans	3,020	3,356
Receivables for loans given to related parties (Note 31)	237,881	176,954
Other receivables and deposits	5,407	1,178
Total non-current receivables	**246,308**	**181,488**
Current receivables		
Trade receivables	236,576	236,470
Less: Provisions for impairment /i/	(76,346)	(87,091)
Net trade receivables	160,230	149,379
Intragroup trade receivables (Note 31)	214,689	241,916
Prepayments to suppliers	404	240
Intragroup short-term loans given (Note 31)	77,073	151,708
Bills of exchange received	41,131	40,518
Other trade receivables /ii/	18,106	24,629
Total current receivables	**511,633**	**608,390**
Total receivables	**757,941**	**789,878**

NOTE 21 – TRADE AND OTHER RECEIVABLES (continued)

/i/ In 2005, a net expense in the amount of HRK 16,212 thousand (2004: HRK 7,260 thousand) was realised for the impairment of trade receivables, which was included in 'selling and distribution costs'. The amount of HRK 9,457 thousand (2004: 0) relates to the provision for impairment of intragroup trade receivables. In addition, HRK 13,760 thousand trade receivables were eliminated, which have been provided for in earlier periods.

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

	2005	2004
	(in thousands of HRK)	
Receivables from related parties for distribution of profit (Note 31)	1,995	6,880
Receivables for accrued interest from loans given to related parties (Note 31)	4,339	4,004
VAT receivable	-	1,664
Prepaid withholding tax receivable	2,005	1,878
Receivables from employees	1,613	1,649
Prepaid expenses	4,647	1,159
Amounts due from settlement agreements	570	1,501
Other	2,937	5,894
	18,106	**24,629**

NOTE 22 – CASH AND CASH EQUIVALENTS

	2005	2004
	(in thousands of HRK)	
Cash with banks	77,321	24,510
Cash in hand	190	165
Cheques received	14	8
	77,525	**24,683**

NOTE 23 – SHAREHOLDERS' EQUITY

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
			(in thousands of HRK)		
At 1 January 2004	5,224,807	1,623,121	12,001	(35,502)	1,599,620
Shares issued /i/	9,599	2,880	-	-	2,880
Sale of treasury shares	9,361	-	-	1,447	1,798
Employee share options:					
- options exercised	83,413	-	-	12,896	12,545
- fair value of options	-	-	5,137	-	5,137
At 31 December 2004	**5,327,180**	**1,626,001**	**17,138**	**(21,159)**	**1,621,980**
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**

As at 31 December 2005, the Company's share capital amounted to HRK 1,626,000,900, distributed among 5,420,003 shares (2004: HRK 1,626,000,900 and 5,420,003 shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid.

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

Share options

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

NOTE 23 – SHAREHOLDERS' EQUITY (continued)

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

	2005		2004	
	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	191.96	147,375	173.89	209,253
Granted	296.69	18,333	198.04	61,535
Forfeited			188.84	(11,000)
Exercised	201.79	(21,667)	153.05	(83,413)
Lapsed	296.69	(1,333)	192.85	(29,000)
At 31 December	**202.79**	**142,708**	**191.96**	**147,375**

As at 31 December 2005, 142,708 outstanding options (2004: 147,375 options) were granted. In 2005, 34,000 options (2004: 8,000 options), which were exercisable, were not granted. Options exercised in 2005 resulted in 21,667 options (2004: 83,413 options), being issued at an average price of HRK 201.79 (2004: HRK 153.05). The related weighted average market price at the time of exercise was HRK 308.66 (2004: HRK 196.49).

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

		Number of shares	
Expiry date	**Average exercise price**	**2005**	**2004**
2006	153.61	8,000	8,000
2007	200.77	26,000	33,000
2008	184.36	42,334	45,001
2009	198.04	50,374	61,374
2010	296.69	16,000	-
		142,708	**147,375**

NOTE 24 - RESERVES

In thousands of HRK	Legal reserves	Other reserves	Reserves for treasury shares	Total
At 1 January 2004	3,566	53,632	22,479	79,677
Coverage of loss /ii/	-	(3,956)	-	(3,956)
Dividend paid	-	(10,390)	-	(10,390)
At 31 December 2004	**3,566**	**39,286**	**22,479**	**65,331**
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**

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 share are non-distributable. Other reserves mainly comprise statutory reserves recorded in accordance with the Company's statute.

/i/ According to the decision of the General Assembly of the Company in June 2005, the Company's profit for 2004 was allocated to: legal reserves in the amount of HRK 1,636 thousand, reserves for treasury shares in the amount of HRK 2,168 thousand and statutory reserves in the amount of HRK 1,446 thousand.

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

NOTE 25 – TRADE AND OTHER PAYABLES

	2005	2004
	(in thousands of HRK)	
Trade payables	175,330	179,198
Trade payables to other related Group companies	42,370	48,125
Other payables /i/	66,994	51,189
	284,694	**278,512**

/i/ Other payables are as follows:

	2005	2004
	(in thousands of HRK)	
Salaries and other employee benefits	35,754	34,059
Dividend payable	2,117	896
Interest payable on borrowings	11,337	12,641
Net VAT payable	1,300	-
Purchase of equity interests	738	767
Advances received for disposal of property	12,281	-
Other	3,467	2,826
	66,994	**51,189**

NOTE 26 – BORROWINGS

	2005	2004
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	297,506	367,639
Banks in foreign countries	44,547	76,898
Bonds issued	199,142	207,123
Finance lease	2,607	3,374
Current portion of non-current borrowings	(135,104)	(94,755)
	408,698	**560,279**
Current borrowings		
Current portion of non-current borrowings	135,104	94,755
Other	704	1,026
	135,808	**95,781**
Total borrowings	**544,506**	**656,060**

NOTE 26 – BORROWINGS (continued)

Bank borrowings are secured by mortgages over the Company's land and buildings. Borrowings secured by the Company's tangible assets amount to HRK 322,732 thousand (2004: HRK 404,830 thousand).

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:

	2005	2004
	(in thousands of HRK)	
6 months or less	121,580	213,181
6 – 12 months	47,000	-
1 – 5 years	297,953	339,986
Over 5 years	77,973	102,893
	544,506	**656,060**

The maturity of non-current borrowings is as follows:

	2005	2004
	(in thousands of HRK)	
Between 1 and 2 years	316,150	139,220
Between 2 and 5 years	64,414	369,946
Over 5 years	28,134	51,113
	408,698	**560,279**

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

	2005			2004		
	HRK	EUR	Other	HRK	EUR	Other
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	4.00	4.41		4.00	4.38	
Banks in foreign countries		4.57			4.39	
Bonds issued		5.00			5.00	
Finance lease		6.16			5.28	
Current borrowings						
Other	4.50			4.50		

NOTE 26 – BORROWINGS (continued)

Bonds issued

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

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

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

	Carrying amounts		Fair values	
	2005	**2004**	**2005**	**2004**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Banks in Croatia	192,484	304,157	194,260	306,996
Banks in foreign countries	15,161	46,333	15,319	46,803
Bonds issued	199,142	207,123	200,735	206,916
Finance lease	1,911	2,666	2,007	2,799
	408,698	**560,279**	**412,321**	**563,514**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 4.25 % (2004: 3.95%).

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

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

	2005	**2004**
	(in thousands of HRK)	
HRK	136,703	118,026
EUR	407,803	538,034
	544,506	**656,060**

The Company has the following undrawn borrowing facilities:

	2005	**2004**
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	83,123	40,427
	83,123	**40,427**

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

NOTE 27 – PROVISIONS

	Employee benefits	Legal proceedings	Total
At 1 January 2005	-	-	-
Additions	9,625	2,540	12,165
At 31 December 2005	**9,625**	**2,540**	**12,165**
Analysis of total provisions:			
Non-current	8,164	2,540	10,704
Current	1,461	-	1,461
	9,625	**2,540**	**12,165**

Employee benefits

This provision comprises estimated long-term employee benefits relating to jubilee awards, as defined by the collective bargaining agreement. It is expected that HRK 1,461 thousand will be used during 2006.

Legal proceedings

In the ordinary course of business, the Company 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 2005. It is expected that HRK 2,540 thousand will be used during 2007.

NOTE 28 – COMMITMENTS

In 2005, the purchase costs of tangible fixed assets contracted with suppliers amounted to HRK 13,364 thousand (2004: HRK 29,865 thousand), which are not yet realised or recognised in the balance sheet as at 31 December 2005 and 2004.
The future payments receivable under operating leases for the usage of vehicles, forklift trucks and refrigerator show-cases are as follows:

	2005	2004
	(in thousands of HRK)	
Not later than 1 year	17,569	15,384
Later than 1 year and not later than 5 years	16,840	23,343
	34,409	**38,727**

NOTE 29 – CONTINGENCIES

	2005	2004
	(in thousands of HRK)	
Legal proceedings /i/	1,209	3,868
Guarantees – external /i/	26,788	25,467
Guarantees – Group	385,712	380,326
	413,709	**409,661**

/i/ With respect to other 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 Company.

NOTE 30 – CASH GENERATED FROM OPERATIONS

(in thousands of HRK)	Note	2005	2004
Net profit /(loss)		**13,562**	**27,585**
Income tax	12	-	-
Depreciation and amortisation	15, 16	134,213	138,120
(Gain)/loss on disposal of tangible and intangible assets	6	(618)	575
Provisions for current assets		22,601	9,249
Provisions for non-current assets	15	6,834	822
Provisions for investments	6	7,449	3,739
Share option fair value adjustment	23	7,306	5,137
Gain on sale of investments	6	(2,036)	(690)
Interest income	7	(18,344)	(30,851)
Dividend income	7	(355)	(343)
Interest expense	8, 11	28,511	37,152
Effect of movements in foreign exchange rate		(20,732)	(2,877)
Other items not affecting cash		1,498	1,879
Movements in working capital:			
Movements in inventories		26,055	9,399
Movements in trade receivables		(58,801)	(55,721)
Movements in other current assets		(3,065)	20,135
Movements in trade payables		(9,623)	9,917
Movements in other liabilities		30,095	(16,151)
Cash generated from operations		**164,550**	**157,076**

NOTE 31 – RELATED PARTY TRANSACTIONS

Related party transactions include operating business transactions with subsidiaries. Items resulting from these transactions and balances as at 31 December 2005 and 31 December 2004 are as follows:

(all amounts are expressed in thousands of HRK)	Note	2005	2004
REVENUES			
Sales of products and trade goods	5		
Belupo d.d., Koprivnica		523	409
Danica d.o.o., Koprivnica		1,882	2,110
Koprivnička tiskarnica d.o.o., Koprivnica		6,832	7,057
Poni trgovina d.o.o., Koprivnica		74	2,519
Ital-Ice d.o.o., Poreč		813	105
Sana d.o.o., Hoče		2,248	3,662
Podravka d.o.o., Ljubljana		59,119	47,557
Podravka d.o.o., Beograd		26,568	22,094
Podravka d.o.o.e.l., Skopje		29,279	27,996
Podravka d.o.o., Sarajevo		99,708	88,003
Podravka-Int.Deutschland – "Konar" GmbH		28,115	30,066
Podravka-International kft, Budapest		16,259	6,318
Podravka-International Pty Ltd, Sydney		17,696	18,542
Podravka-International s r.o., Bratislava		16,972	15,504
Podravka-International Sp.z o.o., Warsaw		3,985	2,041
Podravka-International spol s r.o. v likvidaci, Praha		7,157	22,963
Podravka-Polska Sp. z o.o., Kostrzyn		3,899	2,503
Podravka-International S.R.L., Bucuresti		7,374	2,776
Podravka d.o.o., Podgorica		12,608	11,298
Podravka-Lagris a.s., Dolni Lhota u Luhačovic		13,756	-
Total:		**354,867**	**313,523**
Sales of services	5		
Belupo d.d., Koprivnica		39,314	50,090
Danica d.o.o., Koprivnica		15,364	10,630
Koprivnička tiskarnica d.o.o., Koprivnica		730	836
Poni trgovina d.o.o., Koprivnica		35,875	32,161
Podravka Inženjering d.o.o., Koprivnica		137	86
Ital-Ice d.o.o., Poreč		4,764	3,518
Sana d.o.o., Hoče		2,048	2,139
Podravka d.o.o., Ljubljana		889	1,523
Podravka d.o.o., Beograd		4,957	602
Podravka d.o.o.e.l., Skopje		2,957	2,698
Podravka d.o.o., Sarajevo		6,359	10,028
Podravka-Int.Deutschland – "Konar" GmbH		712	631
Podravka-International kft, Budapest		398	(932)
Podravka-International Pty Ltd, Sydney		959	306
Podravka-International s r.o., Bratislava		19	170
Podravka-International Sp.z o.o., Warsaw		869	526
Podravka-International spol s r.o. v likvidaci, Praha		5	14
Podravka-Polska Sp. z o.o., Kostrzyn		2,054	2,458
Podravka-International S.R.L., Bucuresti		695	-
Podravka d.o.o., Podgorica		1,518	1,214
Podravka-Lagris a.s., Dolni Lhota u Luhačovic		36	143
Lagris s r.o., Bratislava		-	64
		120,659	**118,905**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

(all amounts are expressed in thousands of HRK)	Note	2005	2004
EXPENSES			
Key management and executive directors compensation			
Salaries		21,968	28,533
Share options	10	8,861	5,137
		30,829	**33,670**
Interest income	7		
Belupo d.d., Koprivnica		9,592	12,030
Danica d.o.o., Koprivnica		3,535	4,341
Koprivnička tiskarnica d.o.o., Koprivnica		-	8
Poni trgovina d.o.o., Koprivnica		1,535	4,710
Podravka Inženjering d.o.o., Koprivnica		-	2
Ital-Ice d.o.o., Poreč		290	400
Podravka d.o.o., Beograd		475	192
Podravka-International kft, Budapest		69	36
Podravka-International Sp. z o.o., Warsaw			273
Podravka-Polska Sp. z o.o., Kostrzyn		355	435
Podravka-International S.R.L., Bucuresti		6	8
Podravka-International USA Inc., Wilmington		10	-
		15,867	**22,435**
Income from investments	7		
Belupo d.d., Koprivnica		27,000	17,103
Podravka d.o.o., Sarajevo		1,918	-
Podravka-International Pty Ltd , Sydney		1,373	-
		30,291	**17,103**
Loan receivables	21		
- non-current:			
At beginning of year		254,353	311,119
Increase during the year		87,352	8,886
Repayments received		(41,111)	(45,303)
Other movements		-	(20,422)
Foreign exchange difference		(87)	72
Accrued interest		(16,701)	20,095
Interest collected		(16,348)	20,620
At end of year		300,507	254,352
Maturity: one year or less		(62,626)	(77,398)
		237,881	**176,954**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

(all amounts are expressed in thousands of HRK)	Note	2005	2004
Loan receivables			
- current:	21		
At beginning of year		43,286	11,642
Increase during the year		9,750	52,143
Repayments received		(51,409)	(7,159)
Other movements		13,367	17,655
Foreign exchange difference		(547)	29
Accrued interest		3,137	1,589
Interest collected		3,156	1,644
At end of year		14,447	74,310
Maturity: one year or less		62,626	77,398
		77,073	**151,708**
Total loan receivables		**314,954**	**328,664**

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

	Interest rate	2005	2004
		(in thousands of HRK)	
Belupo d.d., Koprivnica	6% p.a.	191,241	159,529
Danica d.o.o., Koprivnica	4.51% p.a.	72,223	89,380
Poni d.o.o., Koprivnica	6% p.a.	25,109	2,400
Podravka d.o.o., Beograd	1m EURIBOR + 2%	11,934	1,510
Podravka-International Kft, Budapest	1m EURIBOR + 1.5%	-	1,534
		300,507	**254,353**

The effective interest rate is 4.84% p.a.

The maturity of long-term borrowings is as follows:

	2005	2004
	(in thousands of HRK)	
Between 1 and 2 years	62,036	57,532
Between 2 and 5 years	172,408	102,227
Over 5 years	3,437	17,195
	237,881	**176,954**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

Short-term loans receivable

	Effective interest rate 2005	Effective interest rate 2004	2005	2004
			(in thousands of HRK)	
Poni trgovina d.o.o., Koprivnica	5.00%	6.00%	4,750	25,509
Podravka d.o.o., Beograd	-	4.08%	-	11,983
Belupo d.d., Koprivnica	-	6.00%	-	30,324
Ital-Ice d.o.o., Poreč	6.00%	6.00%	4,000	4,500
Podravka-International Kft, Budapest	-	3.59%	-	1,534
Podravka-International S.R.L., Bucharest	-	3.59%	-	460
Podravka-Polska Sp. z o.o., Kostrzyn	3.89%	-	5,697	-
			14,447	**74,310**

	Note	2005	2004
Trade receivables	21		
Belupo d.d., Koprivnica		12,496	39,319
Danica d.o.o., Koprivnica		8,384	4,302
Koprivnička tiskarnica d.o.o., Koprivnica		2,858	2,690
Poni trgovina d.o.o., Koprivnica		43,612	43,451
Podravka Inženjering d.o.o., Koprivnica		49	74
Ital-Ice d.o.o., Poreč		5,810	3,019
Sana d.o.o., Hoče		1,083	1,053
Podravka d.o.o., Ljubljana		13,050	15,394
Podravka d.o.o., Beograd		16,407	16,406
Podravka d.o.o.e.l., Skopje		19,809	20,097
Podravka d.o.o., Sarajevo		38,028	39,134
Podravka-Int. Deutschland – "Konar" GmbH		7,630	9,424
Podravka-International kft, Budapest		4,902	5,850
Podravka-International Pty Ltd, Sydney		3,646	3,665
Podravka-International s r.o., Bratislava		6,967	7,212
Podravka-International Sp.z o.o., Warsaw		1,660	1,233
Podravka-Int. spol s r.o. v likvidaci Praha		1,097	18,594
Podravka-Polska Sp.z o.o., Kostrzyn		1,830	1,253
Podravka-International S.R.L., Bucuresti		2,409	2,237
Podravka d.o.o., Podgorica		8,878	7,337
Podravka-Lagris a.s., Dolni Lhota u Luhačovic		14,084	117
Lagris s r.o., Zvolen		-	55
Total:		**214,689**	**241,916**
Other receivables	21		
Receivables from related parties for distribution of profit		1,995	6,880
Receivables for accrued interest from intragroup loans		4,339	4,004
Receivables from employees		1,613	1,649
		7,947	**12,533**

NOTE 31 – RELATED PARTY TRANSACTIONS (continued)

TRADE AND OTHER PAYABLES

	Note	2005	2004
Trade payables	25		
Belupo d.d., Koprivnica		375	2,742
Danica d.o.o., Koprivnica		22,567	25,448
Koprivnička tiskarnica d.o.o., Koprivnica		3,784	4,193
Poni trgovina d.o.o., Koprivnica		2,203	6,222
Podravka Inženjering d.o.o., Koprivnica		3	121
Ital-Ice d.o.o., Poreč		281	413
Sana d.o.o., Hoče		1,479	2,724
Podravka d.o.o., Ljubljana		4,388	3,440
Podravka d.o.o., Beograd		1,087	679
Podravka d.o.o.e.l., Skopje		703	242
Podravka-Int. Deutschland – "Konar" GmbH		11	-
Podravka-International kft, Budapest		2,266	780
Podravka-International Pty Ltd, Sydney		22	12
Podravka-International s r.o., Bratislava		1,141	223
Podravka-International Sp.z o.o., Warsaw		137	64
Podravka-Int. spol s r.o. v likvidaci Praha		-	699
Podravka-Lagris a.s., Dolni Lhota u Luhačovic		1,849	123
Podravka-International USA Inc., Wilmington		74	-
		42,370	**48,125**
Guarantees			
Belupo d.d., Koprivnica		103,622	101,361
Danica d.o.o., Koprivnica		87,273	61,240
Poni d.o.o., Koprivnica		27,215	25,721
Ital-Ice d.o.o., Poreč		5,163	5,370
Sana d.o.o., Hoče		2,462	4,610
Podravka d.o.o., Ljubljana		13,697	13,094
Podravka d.o.o., Beograd		1,031	1,072
Podravka-International kft, Budapest		15,930	23,845
Podravka-International s r.o., Bratislava		8,575	1,979
Podravka-International Sp.z o.o., Warsaw		23,124	22,787
Podravka-International spol s r.o. v kividaci, Praha		-	1,534
Podravka Polska Sp.z o.o., Kostrzyn		18,772	35,255
Podravka-Lagris a.s., Dolni Lhota u Luhačovic		78,848	82,458
		385,712	**380,326**