

PODRAVKA GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2004**

FREE TRANSLATION FROM CROATIAN ORIGINAL

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF PODRAVKA d.d.

We have audited the accompanying balance sheets of Podravka d.d. (the "Company") and of Podravka d.d. and its subsidiaries (the "Group") as at 31 December 2004 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 non-consolidated and consolidated financial statements present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2004, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.



PricewaterhouseCoopers d.o.o.
Zagreb, 18 April 2005

PODRAVKA GROUP

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

<i>(in thousands of HRK)</i>	Note	Podravka Group		Podravka d.d.	
		2004	2003	2004	2003
Sales	3	3,294,949	3,217,662	1,541,495	1,531,741
Cost of goods sold	5	(1,988,376)	(1,968,469)	(941,190)	(967,719)
Gross profit		1,306,573	1,249,193	600,305	564,022
Other revenues	4	34,302	31,332	12,948	17,237
General and administrative expenses	6	(337,565)	(341,614)	(200,378)	(208,220)
Selling and distribution costs	7	(849,013)	(826,929)	(388,749)	(380,607)
Operating profit/(loss)		154,297	111,982	24,126	(7,568)
Net financial (expense)/income	8	(51,198)	(39,782)	5,589	5,226
Net foreign exchange (losses)/gains		(497)	(38,413)	3,007	(18,004)
Profit/(loss) before tax		102,602	33,787	32,722	(20,346)
Profit tax expense	10	(18,365)	(23,784)	-	-
Net profit/(loss)		84,237	10,003	32,722	(20,346)
Minority interest	29	-	(45)	-	-
Net profit/(loss)		84,237	9,958	32,722	(20,346)
Earnings/(loss) per share					
- Basic	11	HRK 15.97	HRK -0.16		
- Diluted	11	HRK 15.36	HRK 1.78		

The financial statements set out on pages 2 to 41 were approved by the Management Board on 18 April 2005.

President of the Management Board

Darko Marinac

The following notes form an integral part of these financial statements.

PODRAVKA GROUP

BALANCE SHEET

AS AT 31 DECEMBER 2004

		Podravka Group		Podravka d.d.	
(in thousands of HRK)	Note	2004	2003	2004	2003
ASSETS					
Non-current assets					
Property, plant and equipment	12	1,734,512	1,800,330	1,043,724	1,087,990
Intangible assets	13	122,450	156,969	70,684	96,302
Investments in subsidiaries	14	-	-	428,985	428,965
Deferred tax assets	15	1,234	1,313	-	-
Available-for-sale investments	16	19,735	-	18,423	-
Receivables	17	10,634	14,729	181,488	238,831
Total non-current assets		1,888,565	1,973,341	1,743,304	1,852,088
Current assets					
Inventories	18	568,924	610,314	273,091	283,504
Trade receivables	19	770,115	673,190	391,535	350,227
Other receivables and prepaid expenses	20	63,900	75,320	60,345	52,743
Available-for-sale investments	16	5,862	15,882	-	14,655
Current portion of long-term loan receivables	17	34	2,739	77,398	82,412
Short-term loan receivables	21	3,000	3,643	46,286	11,642
Cash and cash equivalents	22	116,140	139,603	65,201	67,855
Total current assets		1,527,975	1,520,691	913,856	863,038
Total assets		3,416,540	3,494,032	2,657,160	2,715,126

The following notes form an integral part of these financial statements.

PODRAVKA GROUP

BALANCE SHEET

AS AT 31 DECEMBER 2004

(in thousands of HRK)	Note	Podravka Group		Podravka d.d.	
		2004	2003	2004	2003
LIABILITIES					
Non-current liabilities					
Long-term debt	23	684,496	501,459	560,279	363,345
Long-term provisions	31	11,985	-	-	-
Total non-current liabilities		696,481	501,459	560,279	363,345
Current liabilities					
Trade payables	24	465,969	462,909	227,323	217,406
Other liabilities	25	102,854	113,033	58,881	65,982
Short-term borrowings	26	122,996	479,484	1,026	288,911
Current portion of long-term debt	23	148,812	157,046	94,755	104,141
Total current liabilities		840,631	1,212,472	381,985	676,440
Total liabilities		1,537,112	1,713,931	942,264	1,039,785
Shareholders' equity					
Share capital	27	1,626,001	1,623,121	1,626,001	1,623,121
Share premium		12,001	12,001	12,001	12,001
Treasury shares	27	(21,159)	(35,502)	(21,159)	(35,502)
Legal and other reserves	27	105,688	112,389	65,331	79,677
Foreign currency translation reserve		3,494	(7,627)	-	-
Retained earnings		153,403	75,124	32,722	(3,956)
Total shareholders' equity	27	1,879,428	1,779,506	1,714,896	1,675,341
Minority interest	29	-	595	-	-
Total liabilities		3,416,540	3,494,032	2,657,160	2,715,126

The following notes form an integral part of these financial statements.

PODRAVKA GROUP

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

Podravka Group	Note	Share capital	Share premium	Treasury shares	Legal and other reserves	Retained earnings	Translation reserve	Total
<i>in thousands of HRK</i>								
Balance at 1 January 2003		1,812,809	12,001	(30,730)	75,602	154,286	(5,010)	2,018,958
New issue of shares	27 /iii/	1,112	-	-	-	-	-	1,112
Dividend declared	27 /v/	-	-	-	-	(52,333)	-	(52,333)
Sale of treasury shares	27 /vi/	-	-	989	-	-	-	989
Purchase of treasury shares	27 /vii/	-	-	(196,561)	-	-	-	(196,561)
Decrease in capital	27 /viii/	(190,800)	-	190,800	-	-	-	-
Transfer to legal and other reserves	27 /ix/	-	-	-	36,787	(36,787)	-	-
Net profit for the year		-	-	-	-	9,958	-	9,958
Exchange differences		-	-	-	-	-	(2,617)	(2,617)
Balance at 31 December 2003	27 /i/, /ii/	1,623,121	12,001	(35,502)	112,389	75,124	(7,627)	1,779,506
Balance at 1 January 2004	27 /i/, /ii/	1,623,121	12,001	(35,502)	112,389	75,124	(7,627)	1,779,506
New issue of shares	27 /iii/	2,880	-	-	-	-	-	2,880
Coverage of loss	27 /iv/	-	-	-	(3,956)	3,956	-	-
Dividend declared	27 /v/	-	-	-	(10,390)	-	-	(10,390)
Sale of treasury shares	27 /vi/	-	-	14,343	-	-	-	14,343
Transfer to legal and other reserves	27 /ix/	-	-	-	7,645	(7,645)	-	-
Bonus to member of Management	27 /x/	-	-	-	-	(2,269)	-	(2,269)
Net profit for the year		-	-	-	-	84,237	-	84,237
Exchange differences		-	-	-	-	-	11,121	11,121
Balance at 31 December 2004	27 /i/, /ii/	1,626,001	12,001	(21,159)	105,688	153,403	3,494	1,879,428

The following notes form an integral part of these financial statements.

PODRAVKA GROUP

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2004

Podravka d.d.	Note	Share capital	Share premium	Treasury shares	Legal and other reserves	Retained earnings	Total
<i>in thousands of HRK</i>							
Balance at 1 January 2003		1,812,809	12,001	(30,730)	72,253	76,147	1,942,480
New issue of shares	27 /iii/	1,112	-	-	-	-	1,112
Dividend declared	27 /v/	-	-	-	-	(52,333)	(52,333)
Sale of treasury shares	27 /vi/	-	-	989	-	-	989
Purchase of treasury shares	27 /vii/	-	-	(196,561)	-	-	(196,561)
Decrease in capital	27 /viii/	(190,800)	-	190,800	-	-	-
Transfer to legal and other reserves	27 /ix/	-	-	-	7,424	(7,424)	-
Net profit for the year		-	-	-	-	(20,346)	(20,346)
Balance at 31 December 2003	27 /i/, /ii/	1,623,121	12,001	(35,502)	79,677	(3,956)	1,675,341
Balance at 1 January 2004	27 /i/	1,623,121	12,001	(35,502)	79,677	(3,956)	1,675,341
New issue of shares	27 /iii/	2,880	-	-	-	-	2,880
Coverage of loss	27 /iv/	-	-	-	(3,956)	3,956	-
Dividend declared	27 /v/	-	-	-	(10,390)	-	(10,390)
Sale of treasury shares	27 /vi/	-	-	14,343	-	-	14,343
Net profit for the year		-	-	-	-	32,722	32,722
Balance at 31 December 2004	27 /i/, /ii/	1,626,001	12,001	(21,159)	65,331	32,722	1,714,896

The following notes form an integral part of these financial statements.

PODRAVKA GROUP

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2004

(in thousands of HRK)	Note	Podravka Group		Podravka d.d.	
		2004	2003	2004	2003
Cash flows from operating activities					
Cash generated from operations	32	372,589	286,838	162,548	135,306
Tax paid		(26,777)	(31,822)	-	-
Interest paid		(43,654)	(37,296)	(27,784)	(21,709)
		302,158	217,720	134,764	113,597
Cash flows from investing activities					
Acquisition of equity interest, net of cash acquired	14	(2,257)	-	(2,257)	(34)
Sale of shares and equity interest		-	6,275	-	6,400
Purchase of tangible and intangible assets	12, 13	(131,400)	(272,296)	(70,617)	(170,144)
Disposal of tangible and intangible assets		4,857	4,161	984	2,232
Long-term loans given and deposits		(8)	(11)	(8,886)	(23,051)
Repayment of long-term loans and deposits given		5,882	87,791	56,310	118,057
Purchase of trading securities	16 /ii/, /iii/	(24,479)	(8,979)	(24,479)	(8,979)
Sale of trading securities	16 /iii/	20,900	2,326	20,900	2,218
Short-term loans given and deposits		(6,150)	(2,102)	(44,767)	(11,074)
Repayment of short-term loans and deposits given		3,150	59	10,809	29,733
Interest received		39	185	18,120	14,187
Dividends received		343	456	343	456
Payment of bonus from retained earnings	27 /x/	(2,269)	-	-	-
		(131,392)	(182,135)	(43,540)	(39,999)
Cash flows from financing activities					
Purchase of treasury shares	27 /vii/	-	(195,959)	-	(195,959)
Sale of treasury shares	27 /vi/	14,343	989	14,343	989
Proceeds from long-term borrowings	23	143,432	166,969	83,722	90,953
Repayment of long-term borrowings	23	(183,596)	(166,277)	(101,398)	(94,230)
Proceeds from short-term loans		247,564	607,614	162,162	497,815
Repayment of short-term loans		(421,093)	(368,544)	(257,828)	(320,130)
Proceeds from bonds issued	23 /i/	15,829	-	15,829	-
Dividends paid	25, 27	(10,708)	(51,242)	(10,708)	(51,242)
		(194,229)	(6,450)	(93,878)	(71,804)
Net (decrease)/increase in cash and cash equivalents		(23,463)	29,135	(2,654)	1,794
Cash and cash equivalents at beginning of year	22	139,603	110,468	67,855	66,061
Cash and cash equivalents at the end of year	22	116,140	139,603	65,201	67,855

The following notes form 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 and its subsidiaries (the “Group”) are manufacturers of a wide range of foodstuffs and non-alcoholic beverages, pharmaceutical and cosmetic products. Apart from Croatia, the Group has production facilities in Poland, the Czech Republic and Slovenia. The production plant in Hungary was discontinued in 2004. More than half of overall sales is realised in Croatia, and more than one third of sales is realised in European countries.

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

The Company's shares are listed on the Zagreb stock exchange.

NOTE 2 – ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. The principal accounting policies have been consistently applied for all periods covered by this report, unless otherwise stated.

2.1 Basis of presentation

The consolidated financial statements of the Group and the non-consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”), applicable as at 31 December 2004. IFRS-1 that has to be applied at the beginning of 2005 has not been applied earlier on the financial statements for the year 2004.

The consolidated financial statements of the Group and the non-consolidated financial statements of the Company have been prepared using the historical cost convention (acquisition cost), as modified by the valuation of fair value of investments available-for-sale, the effects of which are recorded in the income statement.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

2.2 Consolidation

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. Subsidiaries included in consolidation are presented in Note 14. The cost of an acquisition is measured at fair value of the assets given, shares issued and liabilities assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The difference between the cost of acquisition and the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill (Note 2.6).

NOTE 2 – ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

All intragroup transactions have been eliminated on consolidation. All intragroup transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

2.3 Segment reporting

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

2.4 Foreign currencies

(1) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity (“the measurement currency”). The consolidated financial statements are presented in Croatian Kuna (HRK), which is the measurement currency of the Company.

(2) Transactions and balances

Foreign currency transactions are translated into the measurement 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 of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(3) Group companies

Income statements and cash flows of foreign entities are translated into the Group’s reporting currency at average exchange rates for the year and their assets and liabilities are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders’ equity to Translation reserves. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill arising on the acquisition of a foreign entity is treated as an intangible asset of the Group. Goodwill is carried at historical cost denominated in the foreign currency and reported using the exchange rate at the date of the transaction.

NOTE 2 – ACCOUNTING POLICIES (continued)**2.5 Property, plant and equipment**

Property, plant and equipment is included in the balance sheet at cost less accumulated depreciation, except for those assets which are stated at estimated market value pursuant to a valuation performed by an external independent valuator. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use.

Subsequent costs that can be measured reliably are included in the carrying amount of property, plant and equipment, only when it is probable that future economic benefits associated with the item will flow to the Group. The costs incurred are written off over the asset's remaining useful life. All other costs are charged to the income statement when they are incurred.

The Group performs regular reviews once a year, based on external and internal sources of information, to estimate the recoverable amount of tangible fixed assets. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in operating profit.

Depreciation is calculated so as to write off the cost, or valuation of tangible fixed assets, less their estimated residual values, on a straight-line basis over their expected useful lives. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life or the lease term. During 2004, the expected useful life of certain groups of equipment was changed in comparison to 2003. The effects of such change are presented in Note 12. Land and assets in the course of construction are not depreciated.

The expected useful lives are as follows:

	2004	2003
Buildings	10 to 50 years	10 to 50 years
Plant and equipment	2.7 to 33 years	2.7 to 33 years

2.6 Intangible assets**(1) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and impairment losses.

Goodwill arising on each acquisition is amortised on a straight-line basis depending on the nature of the acquisition and management's estimate of its useful economic life or based on the useful economic life of acquired products, within the period of 5 years. Goodwill amortisation is included in the income statement line item 'General and administrative expenses'.

At each balance sheet date, the Group assesses whether there is any indication of goodwill impairment. If such indications exist an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.6 Intangible assets (continued)

(2) Patents, licenses and trademarks

Expenditure to acquire licences for software as well as other rights connected to product distribution are amortised using the straight-line method over their expected or settled useful lives within a period of 5 years.

Expenditure which enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software.

2.7 Investments

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as available-for-sale investments and included in current assets.

Investments with fixed maturity that the management has the intent and ability to hold to maturity, are classified as non-current assets.

Investments intended to be held for an indefinite period of time, which may be sold in response to liquidity needs are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date in which case they are included in current assets.

Long-term loans and long-term receivables granted by the Group relate to cash invested in employees and other borrowers with specified repayment schedules and without the intention of being sold.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Investments in shares are classified as investments available-for-sale and are carried at fair value. Equity instruments which are not traded and for which it is not possible to determine fair value are carried at cost less discount. Marketable securities are carried at market value determined by reference to stock exchange quoted bid prices at the balance sheet date.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Realised and unrealised gains and losses arising from changes in the fair value of available-for-sale investments are included in the income statement in the period in which they arise.

Investments in subsidiaries are stated at cost in the financial statements of the Company.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.8 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor 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 term.

2.9 Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is calculated on the average annual cost price basis. Cost of work in progress and finished goods includes materials, direct labour and an appropriate proportion of variable and fixed overhead costs, the latter being allocated on the basis of normal operating activity. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Where necessary, a provision is made for damaged and expired inventories.

2.10 Trade receivables

Trade receivables are stated at their nominal value less necessary provisions for bad and doubtful debts. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision of trade receivables is the difference between the trade receivables incurred and the estimated value of future discounted cash flows from the collection of trade receivables. The amount of the provision is recognised in the income statement.

2.11 Cash and cash equivalents

For the purpose of the balance sheet and the cash flow statement, cash and cash equivalents comprise cash on hand and balances with banks, and highly liquid investments (such as short-term deposits and bills of exchange) with insignificant risk of changes in value and original maturities of three months or less from the date of acquisition.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.12 Profit tax

Profit tax is computed on the basis of reported income under the laws and regulations of the country in which the respective Group company is registered. Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years. As a result of certain tax regulations, tax losses may arise which can be utilised over the future period of five years.

Deferred income tax is provided using the balance sheet liability method, as the difference arising between tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date.

Deferred 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. Amounts of unutilised tax losses are not used to recognise 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.

2.13 Share capital

Share capital consists of ordinary shares. Preferred shares were included in the share capital up to July 2003. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction, net of tax, in equity from the proceeds. Share issue costs incurred directly in connection with a business combination are included in the cost of acquisition.

Where the Company purchases the Company's equity share capital, the consideration paid including any attributable transaction costs is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

2.14 Borrowings

Borrowings and issued bonds are recognised initially at the proceeds received. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

Borrowings are classified as current liabilities, if the contracted maturity of these liabilities is set within the period of 12 months after the balance sheet date.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions for legal claims and disputes are recorded based on management's estimate of probable losses after consultation with legal counsel.

2.16 Employee benefits

(1) Pension obligations

In the normal course of business through salary deductions, the Group makes payments to the mandatory pension funds in Croatia on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any future benefits to current and former employees.

(2) Termination benefits

Employee termination benefits are recognised in the period in which the Group becomes legally or constructively committed to payment. Employee termination benefits are recognised only after either an agreement is in place with the appropriate employee representatives specifying the terms of redundancy and the numbers of employees affected, or after individual employees have been advised of the specific terms.

(3) Bonus plans

A liability for employee benefits is recognised in provisions based on the Group's formal plan and when past practice has created a valid expectation by management/key employees that they will receive a bonus and the amount can be determined before the time of issuing the financial statements. Liabilities for bonus plans are expected to be settled within 12 months.

(4) Share-based compensation

Treasury share options are granted to members of Management and certain CEOs. The options are exercisable through the sale of treasury shares on various dates from the vesting date and at discounted market price determined at the date the option was granted. Upon realising the options, total equity is increased by the net proceeds received. The Group does not record share-based compensation as employee expenses.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.17 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Sales of goods – wholesale

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of energy maintenance and catering services are recognised in the accounting period in which they are rendered.

(c) Interest income

Interest income is recognised when accrued and when its collection is virtually certain.

(d) Dividend income

Dividend income is recognised when collected.

2.18 Dividends

Dividends from ordinary and preferred shares are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

2.19 Financial risk management

(1) Financial risk factors

The Group's activities expose it to a variety of financial risks, including the effects of changes in market prices, foreign currency exchange rates and interest rates. The Group does not use derivative financial instruments to hedge financial risk exposure.

(2) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the EUR and USD. Additionally, the Company has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.19 Financial risk management (continued)

(3) Credit risk

The Group's liquidity risk management includes maintaining sufficient cash and working capital, and availability of funding through credit lines.

Financial assets that potentially subject the Group to concentrations of credit risk primarily include cash, trade receivables and given loans. The Group keeps its cash with major banks. Trade receivables are presented net of the provision for doubtful accounts.

(4) Interest rate risk

The Group's income and operating cash flows are dependent on changes in market interest rates. The majority of the Group's borrowings are stated at variable rates. According to Group policies market interest rates are used to hedge future cash flows.

(5) Fair value estimation

The book values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The book value of long-term financial liabilities approximate fair value as stated interest rates are tied to contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

2.20 Reclassification

Certain items from the balance sheet, income statement and cash flow statement for the year 2003 have been reclassified to conform to the current year's presentation in accordance with International Financial Reporting Standard 1 – Presentation of financial statements.

In 2004, the Company and the Group carried out changes in organisation. The segment analysis for the year 2003 has been reclassified to conform to the presentation in 2004.

Furthermore, in 2004 deferred tax assets have been separately recorded within non-current assets and comparatives for 2003 have been adequately reclassified.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 3 – SEGMENT INFORMATION

The Group's reportable segments are strategic businesses differentiated by the nature of products including: Food and beverages, Medicines and Services.

Business segments are separate units due to differences in their production technologies. Business segment reports up to their gross profit are based on internal financial information of management accounts.

The tables below present the analysis of revenues and gross profit by business segments, the analysis of sales revenues according to different geographical markets and an overview of most significant assets which may be allocated according to various business segments:

3.1 Analysis by business segment

	Podravka Group							
	2004				2003			
	Sales		Gross profit		Sales		Gross profit	
	(in thousands of HRK)	%	(in thousands of HRK)	%	(in thousands of HRK)	%	(in thousands of HRK)	%
Food and beverages	2,688,872	81.6	958,829	73.4	2,630,231	81.7	929,552	74.4
Medicines	594,681	18.1	347,604	26.6	572,767	17.8	319,446	25.6
Services	11,396	0.3	140	0.0	14,664	0.5	195	0.0
	3,294,949	100	1,306,573	100	3,217,662	100	1,249,193	100

	Podravka d.d.			
	2004		2003	
	Sales		Sales	
	(in thousands of HRK)	%	(in thousands of HRK)	%
Food and beverages - out of Group	1,098,821	71.3	1,130,069	73.8
Food and beverages - within Group	313,522	20.3	291,611	19.0
Services - out of Group	10,247	0.7	12,331	0.8
Services - within Group	118,905	7.7	97,730	6.4
	1,541,495	100	1,531,741	100

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 3 – SEGMENT INFORMATION (continued)

3.2 Analysis by geographical market

	Podravka Group			
	2004		2003	
	<i>(in thousands of HRK)</i>	<i>%</i>	<i>(in thousands of HRK)</i>	<i>%</i>
Croatia	1,769,124	53.7	1,748,190	54.3
South-East Europe	722,954	21.9	687,162	21.4
Central Europe	487,778	14.8	480,319	14.9
Western Europe, overseas and Orient	201,258	6.1	185,782	5.8
Eastern Europe	113,835	3.5	116,209	3.6
Total	3,294,949	100	3,217,662	100

	Podravka d.d.			
	2004		2003	
	<i>(in thousands of HRK)</i>	<i>%</i>	<i>(in thousands of HRK)</i>	<i>%</i>
Croatia	1,031,488	66.9	1,002,897	65.5
South-East Europe	242,812	15.8	248,992	16.2
Central Europe	53,357	3.5	62,961	4.1
Western Europe, overseas and Orient	134,622	8.7	139,442	9.1
Eastern Europe	79,216	5.1	77,449	5.1
Total	1,541,495	100	1,531,741	100

NOTE 3 – SEGMENT INFORMATION (continued)

3.3 Segment analysis of balance sheet positions

The segment analysis of assets and liabilities of the Group as at 31 December 2003 and investments in property, plant and equipment for the year then ended is as follows:

<i>(in thousands of HRK)</i>	Food and beverages	Medicines	Services	Total
Assets				
- property and equipment	1,436,391	350,322	13,617	1,800,330
- inventories	501,075	105,651	3,588	610,314
Other assets	765,497	309,158	8,733	1,083,388
Total assets	2,702,963	765,131	25,938	3,494,032
Liabilities	1,213,322	487,610	12,999	1,713,931
Investments	203,833	68,768	163	272,764

The segment analysis of assets and liabilities of the Group as at 31 December 2004 and investments in property, plant and equipment for the year then ended is as follows:

<i>(in thousands of HRK)</i>	Food and beverages	Medicines	Services	Total
Assets				
- property and equipment	1,385,381	338,057	11,074	1,734,512
- inventories	467,984	96,988	3,952	568,924
Other assets	746,222	360,683	6,199	1,113,104
Total assets	2,599,587	795,728	21,225	3,416,540
Liabilities	1,047,713	478,021	11,378	1,537,112
Investments	98,713	32,577	110	131,400

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 4 – OTHER REVENUES

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Insurance proceeds for damages	7,810	7,137	5,022	5,256
Statute barred liabilities written-off	4,578	4,387	3,964	1,997
Revenues from subsidies	3,145	4,205	-	3,464
Discounts from suppliers	7,806	3,567	1,242	1,231
Other	10,963	12,036	2,720	5,289
Total	34,302	31,332	12,948	17,237

NOTE 5 – COST OF GOODS SOLD

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Material	1,457,148	1,393,558	511,483	502,061
Material within Group	-	-	128,411	134,768
Salaries	273,166	282,709	153,162	161,842
Depreciation	133,594	129,236	82,595	68,041
Other	124,468	162,966	65,539	101,007
Total	1,988,376	1,968,469	941,190	967,719

NOTE 6 – GENERAL AND ADMINISTRATIVE EXPENSES

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries	153,909	158,359	98,863	106,214
Depreciation	55,105	54,083	30,760	28,531
Non-production services	20,944	21,897	14,734	10,861
Other	107,607	107,275	56,021	62,614
Total	337,565	341,614	200,378	208,220

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 7 – SELLING AND DISTRIBUTION COSTS

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Advertising and promotion	213,924	197,526	100,949	92,062
Salaries	257,743	244,807	126,916	126,537
Transport	57,884	59,064	24,975	27,419
Provisions	17,494	25,151	7,255	6,151
Rental	45,052	43,122	19,091	17,770
Depreciation	41,180	41,477	24,765	24,679
Material	32,988	31,045	17,031	17,149
Other	182,748	184,737	67,767	68,840
Total	849,013	826,929	388,749	380,607

NOTE 8 – NET FINANCIAL (EXPENSE)/ INCOME

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Investments				
Income				
- income from subsidiaries /i/	-	-	17,103	59,713
- sale of interests (Note 16)	1,900	7	1,900	-
- other	1,344	1,818	2,678	1,810
	3,244	1,825	21,681	61,523
Expenses /ii/, /iii/	(4,421)	(1,628)	(4,949)	(50,586)
Net (expense)/income from investments	(1,177)	197	16,732	10,937
Interest				
Income out of Group	10,524	9,411	7,183	5,573
Income within Group	-	-	22,435	20,256
Expense out of Group	(60,545)	(49,390)	(39,962)	(31,095)
Expense within Group	-	-	(799)	(445)
Net interest (expense)	(50,021)	(39,979)	(11,143)	(5,711)
	(51,198)	(39,782)	5,589	5,226

/i/ In 2004, withdrawn profit was recorded with respect to the subsidiary Belupo d.d. (2003: from Belupo d.d. an amount of HRK 50.0 million and from other subsidiaries HRK 9.7 million).

/ii/ In 2004, expenses were realised from the purchase of interests in the subsidiary Podravka-International s.r.o., Bratislava, Slovakia in the amount of HRK 3,739 thousand (Note 14).

/iii/ In 2003, by selling the subsidiary Hotel Podravina d.o.o., the Company recorded a loss in the amount of HRK 3,284 thousand, and the Group recorded a loss in the amount of HRK 573 thousand.

In 2003, the Company made a provision for outstanding amounts due from associated companies in the amount of HRK 47,300 thousand for long-term and short-term loans granted to subsidiaries and receivables for outstanding profit from subsidiaries (Note 17, 20, 21).

PODRAVKA GROUP**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2004****NOTE 9 – STAFF COSTS**

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries	684,818	685,875	378,941	394,593
Other /i/	63,151	56,979	33,927	44,016
Total	747,969	742,854	412,868	438,609

As at 31 December 2004, the number of employees in the Group was 7,283 (2003: 7,376), and in the Company there were 4,251 employees (2003: 4,311)

/i/ In 2004, the Group calculated and paid termination benefits in the amount of HRK 31,636 thousand (2003: HRK 25,119 thousand) for 250 employees (2003: 214 employees). The Company calculated and paid termination benefits in the amount of HRK 14,770 thousand (2003: HRK 24,520 thousand) for 117 employees (2003: 200 employees).

NOTE 10 – PROFIT TAX

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Croatian corporate profit tax at 20%	15,999	20,754	-	-
Profit tax (abroad)	2,196	4,343	-	-
Deferred tax (abroad)	170	(1,313)	-	-
	18,365	23,784	-	-

In accordance with Croatian tax regulations, by the end of 2004 the Group realised tax losses in the amount of HRK 127,176 thousand in certain subsidiaries in Croatia (2003: HRK 137,319 thousand), which may be utilised up to 2009 at the latest. The amounts of unutilised tax losses have not been utilised for the recognition of deferred tax assets in the balance sheet, as it is uncertain whether a sufficient amount of taxable profit will be realised against which these deferred tax assets can be utilised in the corresponding Group subsidiaries.

During 2004, the Tax Authority of the Ministry of Finance of the Republic of Croatia carried out a tax audit of the Company's profit tax, income tax and VAT for the years 2003 and 2002. The audit did not result in significant irregularities, which may give rise to a potential material liability in this respect.

NOTE 11 – EARNINGS/(LOSS) PER SHARE

(1) Basic

Basic earnings per share is calculated by dividing the net profit of the Group (in 2003 less total dividend on preferred shares) by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	<u>2004</u>	<u>2003</u>
Net profit /(loss) attributable to shareholders (<i>in thousands of HRK</i>)	84,237	(855)
Weighted average number of ordinary shares in issue	5,276,121	5,234,327
Basic earnings/(loss) per share (<i>in HRK</i>)	15.97	(0.16)

(2) Diluted

Diluted earnings per share is calculated as basic earnings per share (up to July 2003, taking into account the effect of number of shares with the option of being converted from preference to ordinary shares and the effect of the number of share options given to employees, of which 208,500 were not utilised).

	<u>2004</u>	<u>2003</u>
Net profit attributable to shareholders (<i>in thousands of HRK</i>)	84,237	9,958
Weighted average number of ordinary shares in issue	5,484,621	5,593,323
Basic earnings per share (<i>in HRK</i>)	15.36	1.78

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

Podravka Group <i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets in course of construction	Total
Year ended 31 December 2003				
Opening net book amount	1,144,409	508,363	92,088	1,744,860
Effect of changes in foreign exchange rates	(8,732)	(4,615)	53	(13,294)
Additions /i/	1,664	9,068	251,105	261,837
Transfer	63,976	140,504	(204,480)	-
Sale of subsidiaries	(7,154)	(565)	(13)	(7,732)
Disposals	(3,871)	(1,350)	(8)	(5,229)
Depreciation	(56,666)	(123,446)	-	(180,112)
Closing net book amount	1,133,626	527,959	138,745	1,800,330
At 31 December 2003				
Cost	1,796,100	1,460,501	138,745	3,395,346
Accumulated depreciation	(662,474)	(932,542)	-	(1,595,016)
Net book value	1,133,626	527,959	138,745	1,800,330
Year ended 31 December 2004				
Opening net book amount	1,133,626	527,959	138,745	1,800,330
Effect of changes in foreign exchange rates	10,364	3,255	(1,609)	12,010
Additions /i/	3,545	3,380	111,712	118,637
Transfer	66,503	129,257	(195,760)	-
Disposals	(292)	(2,652)	(2,992)	(5,936)
Transfer to available-for-sale (Note 16 /iv/)	(7,162)	-	-	(7,162)
Depreciation /ii/	(59,923)	(123,444)	-	(183,367)
Closing net book amount	1,146,661	537,755	50,096	1,734,512
At 31 December 2004				
Cost	1,869,197	1,561,721	50,096	3,481,014
Accumulated depreciation	(722,536)	(1,023,966)	-	(1,746,502)
Net book value	1,146,661	537,755	50,096	1,734,512

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (continued)

/i/ In 2004 and in 2003, the most significant increase in tangible fixed assets refer to investments in:

- the factory Studenac, Lipik in the amount of HRK 13.4 million (2003: HRK 15.1 million),
- the factory Vegeta in the amount of HRK 11.5 million,
- the factory for the production of semisolid and liquid medicine in the amount of HRK 9.3 million (2003: HRK 60.5 million),
- buildings and equipment for the production of rice in the amount of HRK 8.2 million,
- buildings and production equipment in the meat industry in the amount of HRK 6.2 million (2003: HRK 11.8 million),
- the factory Voće in the amount of HRK 4.1 million,
- the baby food factory in the amount of HRK 3.8 million,
- business premises of Podravka, Ljubljana in the amount of HRK 3.4 million,
- the factory Podravka dishes in the amount of HRK 1.4 million (2003: HRK 100.2 million),
- the factory Kalnik in the amount of HRK 2.0 million (2003: HRK 9.0 million),
- IT equipment in the amount of HRK 3.6 million (2003: HRK 3.3 million),
- mill and bakery equipment in the amount of HRK 4.2 million,
- the reconstruction of the boiler-room at Belupo d.d. in the amount of HRK 4.0 million,
- laboratory equipment in the amount of HRK 2.6 million,
- logistics assets and transportation vehicles in the amount of HRK 1.6 million (2003: HRK 3.0 million).

/ii/ At the beginning of 2004, based on the performed evaluation the Group extended the useful life of certain groups of assets. The effect of this change is an understated depreciation charge in the amount of HRK 13,097 thousand in comparison to the depreciation charge recorded pursuant to the useful life used in the 2003 calculation.

/iii/ Group buildings and land worth HRK 946,473 thousand (2003: HRK 921,543 thousand) have been mortgaged against the Group's borrowings (Note 23).

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

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Cost of capitalised finance leases	52,892	44,220	3,471	-
Accumulated depreciation	(21,585)	(12,789)	(174)	-
Net book value	31,307	31,431	3,297	-

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT (continued)

Podravka d.d. <i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets in course of construction	Total
Year ended 31 December 2003				
Opening net book amount	682,289	269,246	70,434	1,021,969
Additions /i/	1,112	520	156,883	158,515
Transfer	59,458	118,643	(178,101)	-
Transfer from subsidiaries	-	3,613	-	3,613
Disposals	(3,833)	(350)	-	(4,183)
Depreciation	(33,375)	(58,549)	-	(91,924)
Closing net book amount	705,651	333,123	49,216	1,087,990
At 31 December 2003				
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 /i/	3,509	110	58,593	62,212
Transfer	37,133	40,204	(77,337)	-
Transfer from subsidiaries	(266)	8	3,351	3,093
Disposals	(292)	(1,119)	(785)	(2,196)
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

/i/ Disclosed in the table of movements for the Group.

/ii/ Company buildings and land worth HRK 490,408 thousand (2003: HRK 504,581 thousand) have been mortgaged against the Company's borrowings (Note 23).

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 13 – INTANGIBLE ASSETS

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	(in thousands of HRK)		(in thousands of HRK)	
For the year ended 31 December				
Opening net book amount	156,969	195,196	96,302	120,182
Effect of changes in foreign exchange rates	1,667	(1,670)	-	-
Additions /i/	12,763	10,927	5,312	8,156
Disposals	(438)	(2,800)	(185)	(2,709)
Amortisation	(46,511)	(44,684)	(30,745)	(29,327)
Impairment /ii/	(2,000)	-	-	-
Closing net book amount	122,450	156,969	70,684	96,302
At 31 December				
Cost	265,888	251,163	163,789	158,729
Accumulated amortisation	(143,438)	(94,194)	(93,105)	(62,427)
Net book value	122,450	156,969	70,684	96,302

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

/ii/ In 2004, pursuant to the evaluation of operating results of the acquired company Ital-Ice d.o.o., goodwill was impaired at the acquisition, which was recorded as part of general and administrative expenses.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 14 – INVESTMENTS IN SUBSIDIARIES

	Holding in %	Podravka d.d.	
		2004	2003
		<i>(in thousands of HRK)</i>	
Belupo d.d., Koprivnica	100.00	157,830	157,830
- Belupo d.o.o. Ljubljana (subsidiary)	100.00	-	-
- Belupo s.r.o., Bratislava (subsidiary)	100.00	-	-
Koprivnička Tiskarnica d.o.o., Koprivnica	100.00	14,142	14,142
Danica d.o.o., Koprivnica	100.00	92,311	92,311
Podravka Inženjering d.o.o., Koprivnica	100.00	20	20
Poni trgovina d.o.o., Koprivnica	100.00	20	20
Ital-Ice d.o.o., Poreč	100.00	47,425	47,425
Sana d.o.o., Hoče	100.00	217	217
Podravka d.o.o., Ljubljana	100.00	1,925	1,925
Podravka d.o.o., Skopje, Macedonia	100.00	42	42
Podravka d.o.o., Sarajevo, Bosnia and Herzegovina	100.00	40	40
Podravka d.o.o., Podgorica, Serbia and Montenegro	100.00	1,029	1,029
Podravka-International Deutschland –“Konar” GmbH, Germany	100.00	1,068	1,068
Podravka d.o.o., Beograd	100.00	34	34
Podravka-International Kft, Budapest, Hungary	100.00	5,343	5,343
Podravka-International e.o.o.d., Sofia, Bulgaria	100.00	10	10
Podravka-International Pty Ltd, Sydney, Australia	100.00	426	426
Podravka-International Sp.z o.o., Warsaw, Poland	100.00	277	277
Podravka-Polska Sp.z o.o., Kostrzyn, Poland	100.00	49,440	49,440
Podravka-International s.r.l., Bucharest, Romania	100.00	84	84
Lagris a.s., Lhota u Luhačovic, Czech Republic	100.00	56,268	56,268
- Lagris s r.o., Zvolen, Slovakia	25.00	-	-
Lagris s r.o., Zvolen, Slovakia	75.00	996	996
Podravka-International s.r.o., Bratislava, Slovakia /i/	100.00	38	18
- Podravka-International s.r.o. Prague (subsidiary)	100.00	-	-
		428,985	428,965

/i/ By purchase of the interest holder Cerrera s.r.l., Italy, the Company acquired an additional 50% interest in the subsidiary Podravka-International s.r.o., Bratislava, Slovakia. The purchase price of the acquired interest amounted to HRK 3,759 thousand, of which HRK 2,257 thousand was paid in cash, and the remaining part of the purchase price in the amount of HRK 1,502 thousand was settled through the transfer of ownership over shares of Podravka banka d.d. to the seller (Note 16). The difference between the acquired value of the nominal interest and the purchase price in the amount of HRK 3,739 thousand was recorded as investment expense (Note 8).

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 15 – DEFERRED TAX

	<u>2004</u>	<u>2003</u>
At beginning of year	1,313	-
Foreign exchange differences	91	
Tax for the year	<u>(170)</u>	<u>1,313</u>
At end of year	<u>1,234</u>	<u>1,313</u>

NOTE 16 – AVAILABLE-FOR-SALE INVESTMENTS

	Podravka Group		Podravka d.d.	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Long-term investments:				
Investments in equity instruments /i/	5,277	-	3,965	-
RTL d.o.o. /ii/	14,458	-	14,458	-
	<u>19,735</u>	<u>-</u>	<u>18,423</u>	<u>-</u>
Short-term investments:				
Investments in equity instruments /i/	-	6,903	-	5,676
RTL d.o.o. /ii/	-	259	-	259
Dinova d.o.o. /iii/	-	8,720	-	8,720
Properties at subsidiary Podravka Kft, Budapest /iv/	5,862	-	-	-
Total	<u>5,862</u>	<u>15,882</u>	<u>-</u>	<u>14,655</u>

/i/ In December 2004, shares of Podravka banka d.d. in the amount of HRK 1,502 thousand of Cerrera s.r.l., Italy were transferred as part of the price for the purchase of part of the ownership interest in the subsidiary Podravka-International s.r.o., Bratislava, Slovakia (Note 14).

/ii/ During 2004, the investment in RTL d.o.o. was increased by HRK 14,199 thousand as part of the capital increase in RTL. The equity interest of 8.5% remained unchanged. This investment was classified as an investment over one year.

/iii/ At the beginning of 2004, the Group paid in an additional amount of HRK 10,280 thousand as an increase in the investment in Dinova d.o.o. In April 2004, the entire interest 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 in income from interests sold (Note 8).

/iv/ In 2004, the Vegeta production facility in Podravka Kft, Budapest was discontinued. The relating property with a net book value of HRK 7,162 thousand was recorded as an investment available-for-sale within the period of one year at an estimated value of HRK 5,862 thousand. The difference between the book value and the estimated value of the investment available-for-sale in the amount of HRK 1,300 thousand is recorded under general and administrative expenses.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 17 – LONG-TERM RECEIVABLES

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Flats and sale of flats on credit	3,356	3,711	3,356	3,711
Due from associated Group companies /i/	-	-	254,353	311,119
Other long-term receivables and deposits/ii/	7,312	13,757	1,177	6,413
Total long-term receivables, including current portion	10,668	17,468	258,886	321,243
Current portion of long-term receivables	(34)	(2,739)	(77,398)	(82,412)
Total long-term receivables	10,634	14,729	181,488	238,831

/i/ Receivables from associated companies include long-term loans granted to subsidiaries within the Group as follows:

- Belupo d.d., Koprivnica in the amount of HRK 159,529 thousand (2003: HRK 205,966 thousand), interest rate 6% p.a., the loan in the amount of HRK 141,529 thousand is repayable within 5 years, and the loan in the amount of HRK 18,000 thousand is repayable within 1.5 years;
- Danica d.o.o., Koprivnica in the amount of HRK 89,380 thousand (2003: HRK 99,737 thousand), the average interest rate on borrowings for working capital of Podravka d.d., maturity 10 years;
- Poni d.o.o., Koprivnica in the amount of HRK 2,400 thousand (2003: HRK 3,600 thousand), interest rate 6% p.a., maturity 5 years;
- Podravka d.o.o., Beograd in the amount of HRK 1,510 thousand (2003: HRK 1,805 thousand), interest rate monthly EURIBOR+2%, maturity 3 years.
- Podravka-International Kft, Budapest in the amount of HRK 1,534 thousand, interest rate monthly EURIBOR + 1.5%, maturity 2 years.

In 2003, a provision was made for the long-term loan receivable from Podravka International, Warsaw in the amount of HRK 18,637 thousand (Note 8).

/ii/ The most significant items of other long-term receivables of the Group are as follows:

- prepaid lease expenses for Podravka d.o.o., Sarajevo in the amount of HRK 4,158 thousand (2003: HRK 4,876 thousand),
- long-term deposits in the amount of HRK 2,196 thousand (2003: HRK 2,153 thousand), of which an amount of HRK 1,177 thousand relates to the Company.
- recorded receivable for the long-term loan given to Segestica d.d., Sisak in 2003 in the amount of HRK 1,990 thousand, which was transferred to other short-term receivables in 2004, and in 2005 it will be repaid through a compensation for goods received.

PODRAVKA GROUP**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2004****NOTE 18 – INVENTORIES**

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Raw materials and supplies	175,570	201,163	93,052	113,775
Work in progress	83,245	69,967	62,422	57,115
Finished goods	175,131	186,397	86,712	83,776
Merchandise	134,978	152,787	30,905	28,838
	568,924	610,314	273,091	283,504

Inventories of raw materials, supplies and merchandise are stated at cost, while inventories of work in progress and finished goods are stated at total production cost, depending on the level of completion.

NOTE 19 – TRADE RECEIVABLES

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Trade receivables	934,618	825,932	236,470	211,198
Provisions	(171,770)	(165,116)	(87,091)	(83,784)
Net trade receivables	762,848	660,816	149,379	127,414
Due from associated Group companies	-	-	241,916	222,686
Prepayments	7,267	12,374	240	127
	770,115	673,190	391,535	350,227

NOTE 20 – OTHER RECEIVABLES AND PREPAID EXPENSES

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Receivables for retained earnings from associated Group companies /i/	-	-	6,880	11,127
Other receivables from associated Group companies /ii/	-	-	35,028	15,781
Other receivables from non-associated companies	217	6,102	214	6,099
Overpaid VAT receivable	34,754	33,499	9,356	4,720
Overpaid income tax receivable	6,457	5,162	1,878	3,335
Due from employees	2,275	3,781	1,649	2,793
Prepaid expenses and accrued income	9,608	20,255	1,554	6,567
Amounts due from settlement agreements	4,016	2,351	1,501	-
Other	6,573	4,170	2,285	2,321
	63,900	75,320	60,345	52,743

/i/ The Company's receivables for the withdrawal of retained earnings from the subsidiary Belupo d.d. were collected in January and February 2005.

In 2003, a provision was made for the transfer of retained earnings from Podravka-Poljska Sp.z o.o., Kostrzyn in the amount of HRK 14,591 thousand (Note 8).

/ii/ The Company's receivables due from long-term loans from subsidiaries in the amount of HRK 31,024 thousand and receivables for interest due in the amount of HRK 4,004 thousand, of which HRK 33,724 thousand relates to Belupo d.d. (2003: HRK 14,540 thousand).

NOTE 21 – SHORT-TERM LOAN RECEIVABLES

		Podravka Group		Podravka d.d.	
	Average interest rate	2004	2003	2004	2003
		<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Poni trgovina d.o.o., Koprivnica	6.00%	-	-	24,809	5,982
Podravka d.o.o., Beograd	4.08%	-	-	11,983	3,186
Belupo d.d., Koprivnica	6.00%	-	-	-	2,474
Ital-Ice d.o.o., Poreč	6.00%	-	-	4,500	-
Podravka-International Kft, Budapest	3.59%	-	-	1,534	-
Podravka-International S.R.L., Bucharest	3.59%	-	-	460	-
Other /i/		3,000	3,643	3,000	-
		3,000	3,643	46,286	11,642

In 2003, the short-term loan receivable from Podravka International, Warsaw was provided for in the amount of HRK 14,072 thousand (Note 8).

/i/ In 2004, a short-term loan was granted to NK Slaven Belupo in the amount of HRK 3.0 million at an interest rate of 6%.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 22 – CASH AND CASH EQUIVALENTS

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Cash with banks	64,465	104,029	24,655	32,789
Cheques received	101	87	8	14
Bills of exchange received	50,934	35,274	40,518	35,046
Deposits	640	213	20	6
	116,140	139,603	65,201	67,855

NOTE 23 – LONG-TERM DEBT

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Domestic banks	435,908	416,869	367,639	360,362
Foreign banks	166,564	215,833	76,898	107,124
Bonds issued	207,123	-	207,123	-
Finance lease	23,713	25,803	3,374	-
Long-term debt including current portion	833,308	658,505	655,034	467,486
Current portion of long-term debt	(148,812)	(157,046)	(94,755)	(104,141)
Long-term debt	684,496	501,459	560,279	363,345

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 23 – LONG-TERM DEBT (continued)

The repayment schedule of long-term loans is as follows:

	Effective interest rate	2004	2003
		(in thousands of HRK)	
Podravka d.d.			
Repayment due in 2004	3.57% - 6.60%	-	104,141
Repayment due in 2005	3.57% - 6.60%	94,755	93,748
Repayment due in 2006	3.57% - 6.60%	139,220	138,221
Repayment due in 2007	3.57% - 6.60%	328,400	50,407
Repayment due in 2008	3.57% - 5.50%	28,146	12,821
Repayment due in 2009 and thereafter	4.00% - 5.50%	64,513	68,148
Total long-term debt		655,034	467,486
Current portion of long-term debt		(94,755)	(104,141)
Total long-term debt excluding current portion		560,279	363,345
Podravka Group			
Repayment due in 2004	3.57% - 8.51%	-	157,046
Repayment due in 2005	3.57% - 8.51%	148,812	151,948
Repayment due in 2006	3.57% - 8.51%	184,585	171,754
Repayment due in 2007	3.57% - 6.60%	369,561	67,455
Repayment due in 2008	3.57% - 5.50%	45,543	27,561
Repayment due in 2009 and thereafter	3.68% - 5.50%	84,807	82,741
Total long-term debt		833,308	658,505
Current portion of long-term debt		(148,812)	(157,046)
Total long-term debt excluding current portion		684,496	501,459

(1) Bonds issued

In February 2004, the Company issued bonds in the amount of EUR 27.0 million with maturity in February 2007. Short-term loans 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 2004, 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 207.1 million. The relating accrued interest for the period from issuing the bonds to the balance sheet date amounted to HRK 8.7 million and is recorded under other liabilities (Notes 8 and 25).

NOTE 23 – LONG-TERM DEBT (continued)

(2) Long-term loans

Increase in long-term loans

For the Group, the increase of liabilities from long-term debt during 2004 amounted to HRK 143,432 thousand, and for the Company HRK 83,722 thousand (2003: the Group: HRK 166,969 thousand; the Company: HRK 90,953 thousand). The increase mainly relates to granted loans from the following banks:

- HVB Splitska banka in the amount of HRK 70,000 thousand from HBOR funds as part of the programme for granting credits for the development of export and import of goods. The interest rate is 4% p.a. The loan is due in full in 2007.
- HBOR in the amount of EUR 1,327,707, of which EUR 1,172,293 was utilised in 2003. The interest rate is 4%. The loan repayment starts in 2006, and the last instalment is due in 2014.
- RBA Zagreb in the amount of EUR 1,560,000 for Belupo d.d. The interest rate is 3 month EURIBOR + 1.85%. The loan repayment starts on 31 March 2005 and the last instalment is due on 30 September 2009.
- Privredna banka, Zagreb for Belupo d.d. in the amount of EUR 1,696,000. The interest rate is 3 month EURIBOR + 1.75%. The loan repayment starts on 20 March 2005 and the last instalment is due on 20 September 2007.
- HVB Splitska banka for Danica d.o.o. in the amount of HRK 15,000 thousand from HBOR funds as part of the programme for granting credits for the development of export and import of goods. The interest rate is 4% p.a. The loan is due in full in 2007.

Repayment of long-term loans

Repayments of long-term loan liabilities corresponded to the loan repayment schedule in 2004 and amounted to HRK 183,596 thousand for the Group and HRK 101,398 thousand for the Company (2003: HRK 166,277 thousand for the Group and HRK 94,230 thousand for the Company).

In 2004, the average weighted interest rate for loans from banks for the Company was set at 4.29% (2003: 4.32%), and for the Group 4.24% (2003: 4.27%). The major part of the long-term debt carries variable interest rates based on EURIBOR, WIBOR, BUBOR, PRIBOR and TOM.

In 2004, the average weighted interest rate for finance lease liabilities was set at 5.29% for the Company, and 8.06% for the Group (2003: 8.74%).

Total secured loans of the Company and the Group amounted to HRK 404,830 thousand (2003: HRK 408,356 thousand) and HRK 562,765 thousand (2003: HRK 568,219 thousand), respectively.

NOTE 24 – TRADE PAYABLES

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Trade payables	465,969	462,909	179,198	164,358
Due to associated Group companies	-	-	48,125	53,048
	465,969	462,909	227,323	217,406

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 25 – OTHER LIABILITIES

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries and other payments to employees	60,227	63,881	34,059	39,369
Dividend payable	896	1,214	896	1,214
Interest payable on borrowings /i/	14,403	9,873	12,641	7,923
Taxes and contributions payable	11,531	19,305	8,137	10,754
Purchase of equity interests	767	2,996	767	2,996
Other	15,030	15,764	2,381	3,726
	102,854	113,033	58,881	65,982

/i/ Interest payable includes an amount of HRK 8.7 million of accrued interest from bonds issued (Note 23).

NOTE 26 – SHORT-TERM BORROWINGS

	Interest rate/yield	2004	2003
<i>(in thousands of HRK)</i>			
Podravka d.d.			
Commercial papers /i/	4.20%-4.75%	-	77,630
Banks /ii/	4.08%-6.39%	-	210,299
Other	4.50%	1,026	982
Total		1,026	288,911
Podravka Group			
Commercial papers	4.20%-4.75%	-	77,630
Banks /ii/	3.87%-12.05%	121,970	367,130
Other	4.50%	1,026	34,724
Total		122,996	479,484

/i/ The commercial papers issued in 2003 in the amount of HRK 78 million have been realised from the beginning of January to the end of June 2004.

/ii/ The decrease in short-term borrowings relates to loans from domestic banks (Note 23).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 27 – SHAREHOLDERS' EQUITY

/i/ As at 31 December 2004, the Company's share capital amounted to HRK 1,626,000,900, distributed among 5,420,003 shares (2003: HRK 1,623,121,200 and 5,410,404 shares). The nominal value amounted to HRK 300 per share. These shares are comprised as follows:

	2004		2003	
	Number of shares	Amount	Number of shares	Amount
Ordinary shares	5,420,003	1,626,001	5,410,404	1,623,121
Total	5,420,003	1,626,001	5,410,404	1,623,121
Treasury shares	(92,823)	(21,159)	(185,597)	(35,502)

/ii/ The ownership structure is as follows:

	2004		2003	
	Number of shares	%	Number of shares	%
Ordinary shares				
Shareholders – legal entities	3,055,837	56.38	2,606,743	48.18
Shareholders – individuals	1,712,385	31.60	1,815,225	33.55
Croatian Privatisation Fund	558,958	10.31	802,839	14.84
Treasury shares	92,823	1.71	185,597	3.43
Total	5,420,003	100.00	5,410,404	100.00

/iii/ 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 (2003: 3,708 new shares with a nominal value of HRK 300 per share, which relate to the valuation of land on the island of Čiovo in the amount of HRK 1,112,400), which was not included in capital during the Company's privatisation process in 1993.

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

/v/ The realised preferred dividend for 2003 (for the period from 1 January to 2 July 2003) amounted to EUR 1,405,077 or HRK 10,390 thousand (entire 2002: EUR 2,766,600 or HRK 20,864 thousand), paid to EBRD in July 2004 and in July 2003. Following the decision of the General Assembly, the dividend from net profit for 2002 was approved in the gross amount of HRK 6.0 per ordinary share, which totals HRK 31,469 thousand (from net profit for 2001: -). The dividend was paid in full by the end of 2003 in the amount of HRK 30,375 thousand.

/vi/ In 2004, 92,774 treasury shares were sold (2003: 6,032) for an amount of HRK 14,343 thousand (2003: HRK 989 thousand).

NOTE 27 – SHAREHOLDERS' EQUITY (continued)

- /vii/ In 2003, 667,376 treasury shares (2002: 237) were purchased at the total cost of HRK 196,561 thousand (2002: HRK 71 thousand). From total purchased treasury shares, 636,000 shares represents preferred shares of series «B» purchased from EBRD at HRK 300 per share, which totals EUR 25,564,595 or HRK 190,800 thousand. The purchase was performed in accordance with the agreed timing on 15 July 2003.
- /viii/ According to the decision of the General Assembly in July 2003 on the decrease in capital by withdrawing 636,000 shares of series «B» with a nominal value of HRK 300 each, in August 2003 the decrease in capital was executed at the Commercial Court in Bjelovar in the amount of HRK 190,800 thousand.
- /ix/ The legal reserve is required under Croatian law according to which certain Group companies must build up the legal reserve by transferring a certain part of profit of the current year. This reserve is not distributable. In 2004, an amount of HRK 3,952 thousand (2003: HRK 7,983 thousand). This amount refers to realised profit in 2003 and in 2002.
- In 2004, an amount of HRK 3,693 thousand (2003: HRK 28,804 thousand) was transferred to other reserves in accordance with the Statutes of certain Group companies.
- /x/ In 2004, the share option right was utilised by a management member of the subsidiary Belupo d.d. in the amount of HRK 1,928 thousand, increased by the relating tax of HRK 341 thousand, totalling HRK 2,269 thousand, which was recorded as a decrease in retained earnings.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 28 – MANAGEMENT BENEFITS

In 2004, benefits paid to members of the Company's Management Board and the Supervisory Board amounted to HRK 4,332 thousand, (2003: HRK 6,649 thousand including termination benefits; HRK 4,346 thousand excluding termination benefits) and HRK 1,782 thousand (2003: HRK 1,589 thousand), respectively.

Share options

The Group grants treasury share options to members of Management and certain CEOs in accordance with active contracts, as follows:

	2004		2003	
	Average exercise price (in HRK per share)	Options (in thousands of HRK)	Average exercise price (in HRK per share)	Options (in thousands of HRK)
At 1 January	161.51	44,242	159.22	28,546
Granted	173.68	16,386	163.85	16,496
Forfeited	156.54	(1,722)	-	-
Exercised	147.78	(16,271)	184.36	(375)
Lapsed	187.96	(7,268)	106.32	(425)
At 31 December	169.63	35,367	161.51	44,242

Expiry date	Exercise price	Shares	
		2004	2003
2005	140.70	-	40,000
2006	119.47	18,000	-
2007	183.31	46,000	-
2008	161.32	64,000	-
2009	178.36	80,500	-
		208,500	40,000

NOTE 29 – MINORITY INTEREST

	2004	2003
	(in thousands of HRK)	
At 1 January	-	550
Share of net profit for the year	-	45
	-	595

During 2004, the Company purchased the interest holder Cerrera s.r.l., Italy and acquired an additional 50% interest in the subsidiary Podravka-International s.r.o., Bratislava, Slovakia (Note 14). As a result, there is no minority interest in the Group.

PODRAVKA GROUP**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2004****NOTE 30 – COMMITMENTS**

In 2004, the purchase costs of tangible fixed assets contracted with suppliers were HRK 41,730 thousand for the Group and HRK 29,865 thousand for the Company (2003: HRK 39,989 thousand for the Group and HRK 30,543 thousand for the Company), which are not yet realised or recognised in the balance sheet as at 31 December 2004 and 2003.

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

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Not later than 1 year	20,782	17,998	15,384	13,925
Later than 1 year and not later than 5 years	32,228	45,757	23,343	33,723
	53,010	63,755	38,727	47,648

NOTE 31 – CONTINGENCIES

	Podravka Group		Podravka d.d.	
	2004	2003	2004	2003
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Long-term provisions for legal proceedings /i/	11,985	-	-	-
	11,985	-	-	-
Legal proceedings /ii/	21,099	36,877	3,868	10,223
Guarantees /ii/	25,467	28,651	405,793	430,166
	46,566	65,528	409,661	440,389

/i/ During 2004, a long-term provision was made for legal proceedings out of which a potential liability may arise for the Group.

/ii/ With respect to other legal proceedings and guarantees granted, contingencies have not been recognised in the balance sheet as at 31 December, as it was estimated that no potential liability will arise for the Group.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2004

NOTE 32 – CASH GENERATED FROM OPERATIONS

<i>(in thousands of HRK)</i>	Note	Podravka Group		Podravka d.d.	
		2004	2003	2004	2003
Net profit/(loss)		84,237	9,958	32,722	(20,346)
Income tax	10	18,365	23,784	-	-
Depreciation, amortisation	12, 13	229,879	224,796	138,120	121,251
Loss from sale of tangible and intangible fixed assets		695	968	576	1,845
Provisions for current assets		25,246	46,677	9,249	58,806
Provisions for non-current assets		2,821	-	821	-
Provisions for investments	16 /iv/	1,509	-	209	12,486
Long-term provisions	31	11,985	-	-	-
Loss/(profit) from sale of investments	16/iii/	(1,900)	573	1,839	3,284
Interest income	8	(10,524)	(9,411)	(29,618)	(25,829)
Dividend income		(343)	(456)	(343)	(456)
Interest expense	8	60,545	49,390	40,761	31,540
Effect of movements in exchange rate	12,13	13,904	24,635	(2,877)	19,743
Other items not affecting cash		8,281	6,672	2,880	8,096
Movements in working capital:					
Movements in inventories		40,650	(22,933)	9,399	388
Movements in trade receivables		(119,890)	(77,171)	(50,249)	(47,655)
Movements in other current assets		21,135	87	18,902	18,112
Movements in trade payables	24	3,060	33,592	9,917	(27,029)
Movements in other liabilities		(17,066)	(24,323)	(19,760)	(18,930)
Cash generated from operations		372,589	286,838	162,548	135,306