



PODRAVKA GROUP BUSINESS RESULTS 2006

Basic features

1. All Podravka brands mark significant growth, completely compensating and surpassing the drop in the "Commercial goods" segment.
 - 1.1. The highest growth of 7% marks product group "Children's food, sweets and snack". The growth is mostly contributed by sales growth of cereals (Čokolino Crunch and Čokolino MAXI), spreads and dehydrated children's food.
 - 1.2. Growth is also realized by other product groups: „Podravka dishes“ and „Fruits and vegetables“ (4%), „Meat and meat products“ (5%) and „Beverages“ (1%)
2. Croatian market marks 4% organic growth in SBA "Food and Beverages"
3. Discontinued cooperation on distribution of Nestlé products in the third quarter in 2006 in Serbia partially, and completely in the markets of Bosnia and Herzegovina and Macedonia, resulted in drop of commercial goods in the markets of Southeastern Europe of 13%, compensated by 7% organic growth.
4. Gross profit is HRK 1.351,2 mil. which is 1% increase
5. EBIT is HRK 126.2 mil. which is 48% increase compared to 2005
6. Restructuring process continued: non-basic activities spin-off, rationalization of internal processes in sales, distribution, marketing, production and administrative functions
7. Investments in the observed period were HRK 182,3 mil.
8. Corporate bond in HRK issued in May worth HRK 375. mil.
9. General Assembly of Podravka shareholders elected new members to the Supervisory Board: Mr Damir Felak, Mr Josip Pavlović, Mr Dražen Sačer, Mr Dubravko Štimac and Mr Mladen Vedriš, who was at the constituting session of Supervisory Board elected Supervisory Board president.
10. New products in 2006: Čokolino MAXI and Čokolino Crunch cereals, Čokolino chocolate cream spread, Vegeta liquid stock for Australian market, Lino baby food with prebiotic, Podravka tortilla chips and other.
11. EVA- tinned fish brand acquired.
12. Podravka received Superbrand title in Slovakia and Vegeta Superbrand in Russia.
13. Supervisory Board accepted Management Board's decision to propose HRK 5.00 dividend per share at General Assembly.

Podravka Group sales

Sales growth for practically all products within SBA „Food and beverages“, emphasizing here 7% sales increase in „Children's food, sweets and snack group“, 5% sales growth in „Meat and mead products“ and 4% sales growth in groups „Podravka dishes“ and „Fruits and vegetables“, resulted in organic sales of HRK 2.183,7 mil. which is 2% increase compared to 2005.

SBA „Pharmaceuticals“ marks 8% growth in foreign markets, but due to 3% drop in domestic market, a result of restrictive policy by the Croatian Institute for Health Insurance (the prices have been corrected three times during the year) and the prices of Irumed and Iruzid dropped due to their transfer to generic group of medicines, in total „Pharmaceuticals“ marks 1% sales drop.

Sales per Strategic Business Areas

in millions HRK						
Item no.	SBA	2006.		2005.		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Food and beverages	2,852.0	82.3	2,819.1	81.9	101
2.	Pharmaceuticals	605.1	17.5	612.0	17.8	99
3.	Services	10.3	0.3	10.3	0.3	101
Total		3,467.5	100.0	3,441.4	100.0	101

Sales per product groups

in millions HRK						
Item no.	PRODUCT GROUP	2006.		2005.		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Vegeta – food seasonings	653.1	18.8	659.0	19.1	99
2.	Podravka dishes	244.4	7.0	234.7	6.8	104
3.	Children's food, sweets and snacks	290.1	8.4	270.6	7.9	107
4.	Meat and meat products	328.4	9.5	312.3	9.1	105
5.	Beverages	155.7	4.5	153.4	4.5	101
6.	Rice, legumes and other products	148.5	4.3	163.4	4.7	91
7.	Fruit and vegetables	246.8	7.1	237.3	6.9	104
8.	Commercial goods	657.6	19.0	678.7	19.7	97
9.	Other (Food and beverages)	127.4	3.7	109.5	3.2	116
10	Medicines	605.1	17.5	612.0	17.8	99
11	Services	10.3	0.3	10.3	0.3	101
Total		3,467.5	100.0	3,441.4	100.0	101

New products launched in the 4th quarter of 2006:



Podravka Jams extra -

New jams (extra cherry, forest fruits, orange-strawberry and cranberry) are a result of modern technologies and modern trends in diet. Per 100g of finished product there is 45g of high quality selected fruit.



Podravka tortilla chips and Podravka dips

Podravka tortilla chips is a crispy and tasty snack made from corn. Corn seed bud is not separated from the grain, so tortillas get their characteristic dark stains when fried, and thus a higher nutritional value.

In order to complete the consumers' experience of Podravka tortilla chips, we have prepared Podravka dips – light sauces based on tomato and especially designed as a side dish with tortillas. Podravka dips will come in two flavours: mild and hot.



Belupo-

One of the most recognized Belupo's medicines in cardiovascular group launched in November 2006 in new weights (60 x 10mg, 60 x 20mg, 60 x 5 mg)

Sales per markets

Item no.	MARKETS	in millions HRK				
		2006.		2005.		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Croatia	1,880.8	54.2	1,829.1	53.2	103
2.	South-East Europe	778.7	22.5	789.2	22.9	99
3.	Central Europe	434.8	12,5	469.8	13.7	93
4.	Western Europe, Overseas countries and Orient	222.0	6.4	218.3	6.3	102
5	Eastern Europe	151.3	4.4	134.9	3.9	112
Total		3.467,5	100.0	3.441,4	100.0	101

Croatian market share in total sales of Podravka Group is 54.2%. Sales in 2006 was HRK 1.9 billion, which is 3% increase compared to 2005 and at the level as planned. SBA "Food and Beverages" organic sales growth is 4%.

The highest growth of 7% marks product group "Children's food, sweets and snack". Growth realized on other Podravka markets and thus „Podravka dishes“ marks 4% growth, „Fruit and vegetables“ 3%, „Meat and meat products“ 4% and „Vegeta-food seasonings“ 2% growth. 10% growth also realized in „Commercial goods“.

Croatian market for 2006 marks the merge of operative sales divisions within SBA "Food and beverages", achieving more cost efficiency (costs retained at 2005 level with sales increase) and more quality processing of points of sale.

„Hard discounters“ entering the Croatian market starts the final stage in market consolidation but in rationalizing costs and positioning through sales policy profitability is retained.

Foreign markets which make 45.8% of the total sales, the biggest growth realized was in the market of Eastern Europe, and it was 12%. Growth is mostly contributed by the SBA „Pharmaceuticals“ which marks 49% growth and mostly in Russian market. SBA „Food and beverages“ marks 5% organic growth, mostly contributed by 4% sales growth of „Vegeta-food seasonings“ and 11% growth of „Podravka dishes“.

Sales in the South-Eastern Europe was marked by discontinuation of Nestlé products distribution in Serbia in small stores and a complete discontinuation of Nestlé products distribution in Bosnia and Herzegovina and Macedonia in the third quarter 2006, which is a reason of 13% sales drop in „Commercial goods“. Loss of this revenue is successfully compensated by 7% organic growth. The highest growth was marked in Serbia (24%) and Slovenia (4%).

Western Europe, overseas countries and the Orient market marks 2% sales increase compared to 2005. SBA „Food and beverages“ marks 7% organic growth on that market, mostly contributed by 6% sales growth of „Vegeta-food seasonings“. Most success is achieved in Vegeta sales in Australia where the new product Vegeta liquid stock increased Vegeta sales in the country for 34%. Also significant for this market is the entry of some categories from Podravka portfolio into Lidl commercial chain on German market.

Business in the market of Central Europe is marked in significant reduction in production of private labels in „Rice and legumes“, reduction of service production for Kraft Foods (Tang) and reduced sales of dried fruit as a low-profit program, with the purpose of improving the profitability of that market.

Dependant companies in Poland were merged and Czech/Slovakia production was also merged, significantly rationalizing business in that market. Aside from 7% sales drop in the market of Central Europe, profitability is improved in all levels.

Structure of operating expense

in millions HRK

Item no.	COSTS	2006.		2005.		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Costs of goods sold	2,116.3	62.6	2,104.5	62.6	101
2.	Selling and distribution costs	906.0	26.8	899.4	26.7	101
3.	General and administrative expenses	359.2	10.6	359.2	10.7	100
Total		3,381.5	100.0	3,363.1	100.0	101

Operative expenses mark 1% growth with parallel growth of sales and distribution costs and products sold costs while administrative expenses remain at 2005 level.

Sales and distribution costs structure there are also marketing costs which grew about 9%.

Profitability of the Podravka Group

In 2006 the restructuring process was more intense than in 2005 and restructuring costs were significantly higher. Net effect of restructuring costs was about HRK 46. mil. on the overall result. Without the restructuring costs net profit was HRK 106.2 mil. which is 52% more than in the previous 2005 when the profit without restructuring costs was HRK 70.0 mil. Net margin is 3.1% and is 103 bp higher than in 2005. EBIT margin is 5% and is 226 bp higher than last year while gross margin was increased by 12 bp and is 39%.

When calculating the profitability we take into account the restructuring costs, net profit is HRK 60.4 mil. which is 4% less than net profit in 2005, while net margin is reduced by 8 bp and is 1.7%. EBIT is 126.2 mil. and is 48% better than EBIT in 2005, while EBIT margin is higher by 116 bp and is 3.6%. Gross profit increased by 1% with the gross margin of 39%, which is 12 bp increase.

Earning per share is HRK 11,24.

Podravka Group profitability

in millions HRK

	2006	2006 without restructuring costs	2005	2005 without restructuring costs	change (2/4)	change (3/5)
1	2	3	4	5	6	7
Sales	3,467.5	3,467.5	3,441.4	3,441.4	1%	1%
Gross profit	1,351.2	1,351.2	1,336.9	1,336.9	1%	1%
EBITDA	327.5	373.3	308.5	315.9	6%	18%
EBIT	126.2	172.0	85.5	92.9	48%	85%
Net profit	60.4	106.2	62.6	70.0	-4%	52%

Profit margins %	2006	2006 without restructuring costs	2005	2005 without restructuring costs	change (2/4)	change(3/5)
Gross margin	39.0	39.0	38.8	38.8	12bp	12bp
EBITDA margin	9.4	10.8	9.0	9.2	48bp	159bp
EBIT margin	3.6	5.0	2.5	2.7	116bp	226bp
Net margin	1.7	3.1	1.8	2.0	-8bp	103bp

Profitability by Strategic Business Areas

in millions HRK

SBA	Food and Beverages			Pharmaceuticals		
	2006	2005	change	2006	2005	change
Sales	2,852.0	2,819.1	1%	605.1	612.0	-1%
Gross profit	1,000.3	985.3	2%	350.5	359.5	-2%
EBITDA	143.0	187.0	-24%	184.2	118.2	56%
EBIT	-14.0	8.5	-264%	139.9	76.4	83%
Net profit	-40.6	10.6	-483%	100.7	51.4	96%
Profit margins						
Gross margin %	35.1	35.0	10 bp	57.9	58.7	-80 bp
EBITDA margin %	5.0	6.6	-160 bp	30.4	19.3	1,110 bp
EBIT margin %	-0.5	0.3	-80 bp	23.1	12.5	1,060 bp
Net margin %	-1.4	0.4	-180 bp	16.6	8.4	820 bp

FREE TRANSLATION FROM CROATIAN ORIGINAL

Independent auditor's report

To the Shareholders of PODRAVKA d.d.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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


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


Tatjana Rukavina
President of the Management Board


Jadranka Čabrajić
Certified auditor

PODRAVKA d.d.

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

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

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

President of the Management Board


Darko Marinac

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

PODRAVKA d.d.

CONSOLIDATED BALANCE SHEET

AS AT 31 DECEMBER 2006

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

PODRAVKA d.d.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2006

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

PODRAVKA d.d.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2006

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

Always with a heart



www.podravka.com

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