



RESULTS OF THE PODRAVKA GROUP FOR THE YEAR 2005

Key features

1. Increase of sales by 4.4% resulted in sales of 3.44 billion HRK.
 - 1.1. Increase of sales in the Strategic Business Area (hereinafter referred to as SBA) "Food and Beverages" by 4.9% resulted in sales of 2.82 billion HRK.
 - 1.2. Increase of sales in the SBA "Pharmaceuticals" by 2.8% resulted in sales of 611.1 million HRK.
2. Gross profit of 1,336.9 million HRK which represents an increase of 3.5%.
3. EBIT after adjustments with new ISFR and providing additional provisions amounts to 85.5 million HRK which is 39.1% less than in the year 2004.
 - 3.1. EBIT from regular operations (without the influence of ISFR changes and additional provisions) amounts to 162.5 million HRK which is 15.7% more than in the year 2004.
4. Net profit after adjustments with new ISFR, IAS and providing additional provisions amounts to 62.6 million HRK which is 15.4% less than in the year 2004.
 - 4.1. Net profit from regular operations (without the influence of changes in ISFR and additional provisions) amounts to 124.8 million HRK which is 48% more than in the year 2004.
5. Investments totalled 135.93 million HRK during the observed period.
6. The Group's indebtedness totalled 833 million HRK which is 12.9% less compared to 31 December 2004 decreasing the indicator of indebtedness share in the shareholders' equity for 752 bp which now stands at 43.36%.
7. The proposed dividend for the year 2005 is 5 HRK per share.
8. A business cooperation agreement was signed with the company Rieber & Søn for the markets of Poland and Hungary.
9. New products: Vegeta Mediterranean and Ketchup.
10. Vegeta received the award "Superbrand" in Russia¹.
11. The new Management Board was appointed.
12. The Corporate Management Codex was adopted.

¹ In the year 2004 Vegeta received the award "Superbrand" in Poland and according to reasearch conducted by Young & Rubicam was listed among the first three brands with the highest growth potential on the market of Poland.

Note

New International Standards on Financial Reporting had a significant impact on the financial statements of the Podravka Group in the year 2005.

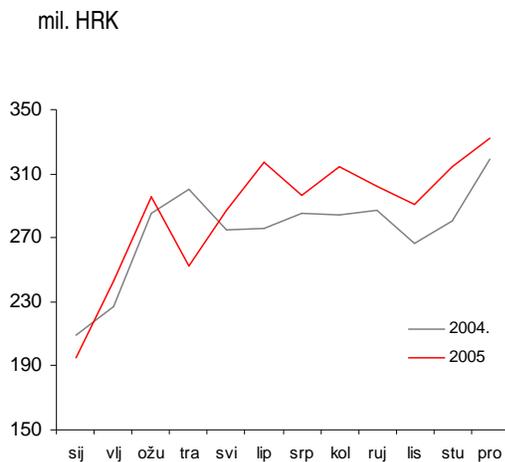
All changes in accounting policies have also been retroactively applied with adjustments of retained earnings as at 1 January 2004. Retroactive application of ISFR 2 in 2004 Financial Statements increased G&A costs and therefore net profit in 2004 decreased for 10,2 million HRK.

Adjustments with the new ISFR had a negative impact on the profit of 2005 in the amount of 33 million HRK. Apart from this, additional extraordinary provisions in for legal cases in the amount of 37 million HRK also had negative impact on the profit of 2005. Further in the text financials of Podravka Group have been stated with and without above mentioned changes.

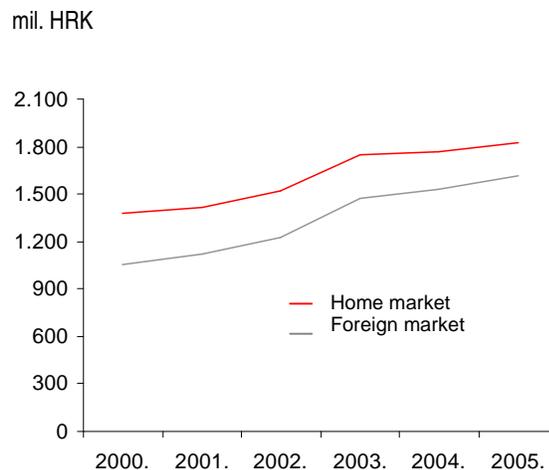
Sales Revenue

In the year 2005 sales totalled 3,441.4 million HRK which is a 4.4% increase compared to the sales realised in the year 2004. In the last eight months of the reporting period, sales showed a constant increase with major breakthroughs on foreign markets where, in general, a total increase of 6% was achieved. The compound annual growth rate of sale for the period from the year 2000 till 2005 on foreign markets amounted 8.9%, on the market of Croatia 5.8%, while the total compound annual growth rate of sale for the observed period totalled 7.2%.

Comparison of sales per month



Comparison of sales revenue from 2000 till 2005



On foreign markets there was a growth of sales in almost all product groups within the SBA "Food and Beverages" of which the 23% growth within the group of fruit and vegetable processed products (condiments, tomato based products and other fruit and vegetable processed products) should be highlighted as well as the 8% growth within the product group of Podravka Dishes (soups, bouillons, instant, half-prepared and ready to eat dishes, sauces and dressings).

Sales increase of 4.4% resulted in an increase of gross profit of 45 million HRK, although the gross margin remained at the year 2004 level. The underlying reason for maintaining the gross margin at the same level was conditioned by the gross margin drop in the SBA "Pharmaceuticals" resulting from the restrictive policy of wholesale drugstores and the Croatian Health Insurance Institute.

Sales per Strategic Business Areas ²

in million HRK

Item no.	SBA	2005		2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Food and Beverages	2.820,0	81,9	2.688,9	81,6	105
2.	Pharmaceuticals	611,1	17,8	594,7	18,0	103
3.	Services	10,3	0,3	11,4	0,3	90
Total		3.441,4	100,0	3.294,9	100,0	104

In the sales structure of the Podravka Group "Food and Beverages" accounts for 81.9%, "Pharmaceuticals" for 17.8% and "Services" for 0.3%.

The sales of "Food and Beverages" recorded a 5% growth while the sales of "Pharmaceuticals" recorded a 3% growth. "Food and Beverages" realised 47.3% of sales on the market of Croatia, while 52.7% were realised on foreign markets. The growth of "Food and Beverages" on the market of Croatia totalled 4.5%, while the growth on foreign markets was 5.2%.

"Pharmaceuticals" realised 79.6% of sales on the market of Croatia, while on foreign markets 20.4% of sales were achieved. The sales growth of "Pharmaceuticals" on the market of Croatia totalled 1.5%, while the realised growth on foreign markets was 11%.

Sales per Product Group

in mil. HRK

Item no.	PRODUCT GROUP	2005		2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1	Vegeta - Food Supplements	659,0	19,1	656,2	19,9	100
2	Podravka Dishes	233,9	6,8	221,0	6,7	106
3	Baby Food, Sweets and Snacks	270,6	7,9	270,7	8,2	100
4	Meat and Meat Products	312,3	9,1	271,2	8,2	115
5	Beverages	158,5	4,6	165,7	5,0	96
6	Rice, Legumes and Other	162,1	4,7	177,6	5,4	91
7	Fruit and Vegetables	237,1	6,9	217,3	6,6	109
8	Commercial goods	669,0	19,4	574,6	17,4	116
9	Other (Food and Beverages)	117,5	3,4	134,6	4,1	87
10	Pharmaceuticals	611,1	17,8	594,7	18,0	103
11	Services	10,3	0,3	11,4	0,3	90
Total		3.441,4	100,0	3.294,9	100,0	104

² The reorganisation conducted in September 2004 defined three strategic business areas: "Food and Beverages", "Pharmaceuticals" and "Services".

Observed by product group, the highest sales growth was achieved in the group of Meat and Meat Products in the amount of 15%. Sales growth was also achieved in the product groups Podravka Dishes (6%) and Fruit and Vegetables (9%). Commercial goods achieved a 16% growth. A 9% drop was recorded in the sales of Rice, Legumes and Other Products, resulting mainly from the sales drop in the Czech Republic. Sales drop also occurred in Beverages in the amount of 4%. The sales of Vegeta and the sales of Baby Food, Sweets and Snacks were kept at the year 2004 level.



In the year 2005 Vegeta received one more creditable foreign award, "Superbrand" 2005, in Russia, competing with 1033 other brands. Vegeta was given 385 points out of 400 and is among the 388 brands which have gained the right to carry the label "Superbrand" on the Russian market. During the year 2005 a new image of the Vegeta packaging was introduced and a new product Vegeta Mediterranean was launched, containing not less than seven types of Mediterranean herbs, and following the specific culinary quality Croatia enjoys as a Mediterranean country. The highest sales growth during the year 2005 Vegeta achieved on the market of South-East Europe.



The Fruit and Vegetables group of products realised a high 23% growth during the year 2005 on foreign markets, mostly due to the growth on the markets of South-East and Central Europe. This year was marked by the expansion of the condiment product palette with the introduction of a new product "Ketchup hot", "Ketchup mild" and "Ketchup" foodservice with dispenser. In November 2005 the campaign "Hot or Mild" was conducted for which the agency "Imago" won second place at the International Advertising Festival (MIAF) in Moscow. Podravka products also received some prestigious awards on the Zagreb Autumn Fair, the "Quality Medal 2005" for vegetable sauces "Relish" and "Salsa", and "Peach Light Jam" and "Sour Cherry Filling". In September 2005 a cooperation agreement was signed with the company Vegafruit from Bosnia and Herzegovina in the field of processing, distribution and export placement of fruit and vegetables.



Meat and Meat Products realized a total sales growth of 15%. Sales on foreign markets increased 12% while on the market of Croatia it reached 20%. Growth on foreign markets was mainly supported by a 17% growth on the markets of Western Europe, Overseas Countries and the Far East. In the year 2005, the American inspection prolonged the license for Podravka's meat industry, assessing it with high grades for acceptance. The products were confirmed to be at the highest food safety and quality level, which means that Podravka will continue to export her products to the American market. In the year 2005 Podravka was granted the HALAL certificate proving that the production processes and products meet food standards for the people of Islamic religion. This certificate will allow even stronger penetration on foreign markets.

Beef goulash and tea sausage received awards for quality "Croatian Creation" and "Croatian Quality" respectively.

Sales per Market

in mil. HRK

Item no.	MARKETS	2005		2004		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Croatia	1.828,9	53,1	1.769,1	53,7	103
2.	South-East Europe	789,2	22,9	723,0	21,9	109
3.	Central Europe	470,0	13,7	487,8	14,8	96
4.	West. Europe, Overseas, Far East	218,3	6,3	201,3	6,1	108
5	Eastern Europe	134,9	3,9	113,8	3,5	119
Total		3.441,4	100,0	3.294,9	100,0	104

On foreign markets the highest growth was recorded on the market of Eastern Europe in the amount of 19%. "Food and Beverages" achieved a 15% growth mainly supported by the growth on the strategic market of Russia in the amount of 20%. Vegeta recorded a growth of 5%, baby food 59%, while the sales of soups recorded a growth of 40% on the market of Russia. Stronger penetration of "Pharmaceuticals" on the Russian market resulted in sales growth of 33%.

Sales in South-East Europe (SEE) recorded a 9% growth, of which the majority of 11% was achieved on the market of Bosnia and Herzegovina and 35% on the market of Serbia. "Food and Beverages" in SEE realised a 9% growth. The sales of Vegeta remained at the sales level of the year 2004, while growth was recorded by Podravka Dishes (2%), Processed Fruit and Vegetable Products (28%), Commercial Goods (18%) and Meat and Meat Products (9%). "Pharmaceuticals" achieved a growth of 8% mostly due to the growth on the markets of Bosnia and Herzegovina and Slovenia. During the year 2005 Podravka signed partnership agreements on the market of South-East Europe with the company Vegafruit from Bosnia and Herzegovina for cooperation in the field of processing, distribution and the export placement of fruit and vegetables, with SwissLion Takovo for cooperation in the field of production on the markets of Serbia and Montenegro and an agreement for the distribution of Agrocomerc products on the territory of Bosnia and Herzegovina.

The markets of Western Europe, Overseas Countries and the Far East recorded 8% higher sales compared to the year 2004, which is mainly the result of the growth of Commercial Goods sales by 25%, Meat and Meat Products by 17%, Vegeta by 1% and Podravka Dishes by 33%.

A sales drop was recorded only on the market of Central Europe in the amount of 4%. This drop was mostly the result of sales drop in the product group Rice, Legumes and Other Products, which compared to the previous comparative period had a 10% shortfall. The sales of Vegeta remained at the level of the year 2004, while a 27% growth was achieved in the group of Fruit and Vegetable Products.

In autumn Rieber Food Polska S.A. and Podravka International Export-Import Sp. z o.o. established a strategic alliance in the segment of sales and distribution on the Polish market which was also extended to the Hungarian market. On the Polish market the companies integrated their sales forces which now count 150 employees. This strategic agreement will apart from stronger brand position for both companies result in savings in sales and distribution.

All foreign markets account for 46.9% of the total sales which is 0.6 pp more than in the year 2004.

The sales share on the market of the Republic of Croatia reached 53.1%. Sales realised in the year 2005 totalled 1.83 billion HRK, 3% more than in the comparative reporting period.

The highest growth was achieved in Meat and Meat Products in the amount of 20%, Commercial goods 16%, Podravka Dishes 4% and Fruit and Vegetables 1%. A drop was realised in Beverages in the amount of 5% and Vegeta 2%, while Baby Food, Sweets and Snacks remained at last year's sales level.

In the year 2005 the Croatian market was characterised by further trade consolidation and therefore, key accounts participated in total sales with 80% which is three percentage points more than in the year 2004. Further expansion of private brands, customer demands for specific packing and stronger marketing activities in trade chains have created additional pressure on product prices. Concentration has also marked the hotel industry where, during the year 2005, two interest groups of hotels appeared: Association of Small and Family Hotels (OMH) and Croatian Association of Hotel and Restaurant Owners (HUH). In April 2005 Podravka signed a long term business cooperation agreement with HUH which anticipates classic cooperation but also joint efforts on the improvement and creation of the gastronomic offer in tourism.

Structure of operating costs/expenses

in mil. HRK

Item no.	COST/EXPENSES	2005		2004 adjusted		Index 2:4
		Amount	%	Amount	%	
0	1	2	3	4	5	6
1.	Costs of goods sold	2.104,5	62,6	2.003,0	63,5	105
2.	Sales and distribution costs	899,4	26,7	812,3	25,7	111
3.	General and administrative costs	359,2	10,7	339,6	10,8	106
Total		3.363,1	100,0	3.155,0	100,0	107

The highest growth (11%) was recorded in sales and distribution costs which account for 26.1% of the net sales and is 140 bp more than in the year 2004. This growth is mainly the result of higher marketing expenses due to increased marketing activities in the second half of the year.

General and administrative costs recorded a 6% growth, but if we exclude the single instance (extraordinary) effect on cost increase in the year 2005 (additional provisions for legal disputes and changes in accounting policies), the observed costs show a 10% drop. The share of general and administrative costs in net sales accounted for 10.4% and remained at the year 2004 level. If the mentioned single instance costs are excluded, the share of general and administrative costs in net sales accounts for 8.9% which is a drop of 143 bp compared to the year 2004.

Costs of goods sold showed a 5% increase compared to the year 2004. The share of costs of goods sold in the net sales accounts for 61.2%, remaining at the year 2004 level.

Profitability of the Podravka Group

Sales increase in the amount of 4% resulted in the increase of gross profit by 3% maintaining the gross margin at the year 2004 level. The EBITDA margin is lower by 227 bp compared to the year 2004, while the EBIT margin is 178 bp lower. Net profit amounts to 62.6 million HRK which is a 15% drop compared to the year 2004. The net margin is lower by 43 bp. If we exclude the negative single instance effect on the year 2005 profit (disclosed in column 3, 5 and column 7) arising from the application of new accounting policies and the negative single instance effect of additional provisions for legal disputes, EBIT margin was 4.7%, net margin 3.6% and net profit was 124.8 million HRK.

Earnings per share totalled 11.74 HRK.

Return on capital was 3.3%. Return on assets was 1.8%.

Profitability of the Podravka Group

in mil. HRK

	2005.	2005.before adjusting to ISFR and one off costs	2004. adjusted	2004.before adjusting to ISFR	promjena (2/4)	promjena (3/5)
1	2	3	4	5	6	7
Sales revenue	3.441,4	3.441,4	3.294,9	3.294,9	4%	4%
Gross profit	1.336,9	1.340,0	1.291,9	1.306,6	3%	3%
EBITDA	308,4	385,5	370,3	384,2	-17%	0%
EBIT	85,5	162,5	140,4	154,3	-39%	5%
Net profit	62,6	124,8	74,0	84,2	-15%	48%
Profit margins %	2005.	2005.before adjusting to ISFR and one off costs	2004. adjusted	2004.before adjusting to ISFR	promjena (2/4)	promjena (3/5)
Gross margin	38,8	38,9	39,2	39,7	-36bp	-72 bp
EBITDA margin	9,0	11,2	11,2	11,7	-228bp	-46 bp
EBIT margin	2,5	4,7	4,3	4,7	-178bp	4 bp
Net margin	1,8	3,6	2,2	2,6	-43bp	107 bp

Profitability per Strategic Business Area

in mil.HRK

SBA	Food and Beverages			Pharmaceuticals		
	2005.	2004.	Changes	2005.	2004.	Changes
Sales revenue	2.820,0	2.688,9	5%	611,1	594,7	3%
Gross profit	985,3	942,3	5%	354,0	352,4	0%
EBITDA	186,9	244,5	-24%	118,2	123,0	-4%
EBIT	8,5	53,1	-84%	76,4	87,2	-12%
Net profit	10,6	19,4	-45%	51,4	54,4	-6%
Profit margins						
Gross margin	34,9	35,0	-10 bp	57,9	59,3	-133 bp
EBITDA margin %	6,6	9,1	-247 bp	19,3	20,7	-134 bp
EBIT margin %	0,3	2,0	-167 bp	12,5	14,7	-216 bp
Net margin %	0,4	0,7	-35 bp	8,4	9,1	-74 bp

FREE TRANSLATION FROM CROATIAN ORIGINAL

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF PODRAVKA d.d., Koprivnica

We have audited the accompanying consolidated balance sheet of Podravka d.d. and its subsidiaries (the "Group") as at 31 December 2005, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements set out on pages 2 to 45 are the responsibility of the Management of Podravka d.d. (the "Company"). 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 consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers d.o.o.

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

**Income Statement
for the year ended 31 December 2005**

<i>(in thousands of HRK)</i>	Note	2005	2004
Sales revenue	5	3,441,378	3,294,949
Costs of goods sold		(2,104,473)	(2,003,009)
Gross profit		1,336,905	1,291,940
Other net loss	6	(621)	(4,667)
General and administrative costs		(359,215)	(339,624)
Selling and distribution costs		(899,371)	(812,327)
Other revenue	7	9,674	16,482
Other expenses	8	(1,882)	(11,358)
Operating profit		85,490	140,446
Net financial expenses	11	(15,649)	(48,061)
Profit before tax		69,841	92,385
Profit tax	12	(7,215)	(18,365)
Net profit		62,626	74,020
Earnings per share			
- regular	14	11.74 HRK	14.04 HRK
- diluted	14	11.40 HRK	13.49 HRK

Balance Sheet
for the year ended 31 December 2005

<i>(in thousands of HRK)</i>	Note	As at 31 December 2005	
		2005	2004
ASSETS			
Non-current assets			
Property, plant and equipment	16	1,655,399	1,740,374
Intangible assets	17	91,237	122,450
Deferred tax assets	27	11,098	1,234
Financial assets at fair value in income statement	19	22,477	19,735
Trade and other receivables	21	13,195	10,634
Total non-current assets		1,793,406	1,894,427
Current assets			
Inventories	20	569,092	568,924
Trade and other receivables	21	908,835	884,983
Non-current assets available for sale	18	15,260	-
Cash and cash equivalents	22	126,234	65,206
Total current assets		1,619,421	1,519,113
Total assets		3,412,827	3,413,540
LIABILITIES			
Non-current liabilities			
Long-term debt	26	515,358	684,496
Provisions	28	14,134	11,985
Total non-current liabilities		529,492	696,481
Current liabilities			
Trade payables and other liabilities	25	590,709	565,823
Short-term borrowings	26	317,640	271,808
Provisions	28	53,827	-
Total short-term liabilities		962,176	837,631
Total liabilities		1,491,668	1,534,112
Shareholders' equity			
Share capital	23	1,635,796	1,627,060
Reserves	24	125,514	109,182
Retained earnings		159,849	143,186
Total shareholders' equity		1,921,159	1,879,428
Total liabilities		3,412,827	3,413,540

Cash Flow Statement
for the year ended 31 December 2005

<i>(in thousands of HRK)</i>	Note	Year ended 31 December 2005	
		2005	2004
Cash flows from operating activities			
Cash generated from operations	31	363,545	356,929
Tax paid		(14,180)	(26,777)
Interest paid		(40,747)	(43,654)
		308,618	286,498
Cash flows from investing operations			
Purchase of shares, net cash flow		-	(2,257)
Purchase of tangible and intangible assets	16, 17	(134,597)	(131,400)
Disposal of tangible and intangible assets		9,708	4,857
Long-term loans given and deposits		(554)	(8)
Repayment of long-term loans and deposits given		370	5,882
Purchase of trading securities	19	(6,679)	(24,479)
Sales of trading securities		5,891	20,900
Short-term loans given and deposits		-	(6,150)
Repayment of short-term loans and deposits given		-	3,150
Interest received		-	39
Dividends received		355	343
Payment of bonus from retained earnings		-	(2,269)
		(125,506)	(131,392)
Cash flows from financing activities			
Purchase of treasury shares	23	(18,858)	(3,405)
Sales of treasury shares	23	20,444	17,748
Proceeds from long-term borrowings		58,725	143,432
Repayment of long-term borrowings		(165,584)	(183,596)
Proceeds from short-term loans		241,565	247,564
Repayment of short-term loans		(232,908)	(421,093)
Proceeds from bonds issued	26	-	15,829
Dividends paid		(25,468)	(10,708)
		(122,084)	(194,229)
Net increase/(decrease) in cash and cash equivalents		61,028	(39,123)
Cash and cash equivalents at beginning of year	22	65,206	104,329
Cash and cash equivalents at year end	22	126,234	65,206

Kompanija sa srcem



www.podravka.com

A Company with a Heart

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