

# THE PODRAVKA GROUP IN 1999

- operating profit up by 51%
- profit before interest and tax up by 42%
- 44% of sales revenue recorded on foreign markets
- the drugs plant in Koprivnica completed and put on stream
- the Vegeta plant in Koprivnica completed and started trial production
- construction completed of the new Vegeta, soup and powdered products plant in Poland
- successful implementation of the SAP/R3 integrated business information system
- Podravka gains 100% ownership of its subsidiary Podravka Kft. Mohacs in Hungary
- the completion of joint investment by Podravka d.d. and Elite International (part of the Strauss Elite group of Israel) in the production and sale of ELITE coffee in the Croatian market
- an increase in equity capital of HRK 78,900,000
- the introduction of the IMS integrated quality management system to begin the process of standardisation
- continued development of the environmental protection system
- continued product and market focusing and innovation - a range of new products launched

# A MESSAGE FROM THE PRESIDENT OF THE MANAGEMENT BOARD TO SHAREHOLDERS

Dear Shareholders,

The Podravka Group had another successful year in 1999, with net operating profit amounting to HRK 104 million, in spite of very difficult conditions in our key markets. Operating profit increased by 51% compared to 1998. Earnings before interest and tax (EBIT) was HRK 182.6 million, which is an increase of 42% over 1998. 44% of Podravka sales were generated in foreign markets, and 56% in the Croatian market. In order to continue the restructuring process, the audited annual report of the Podravka Group contains consolidated provisions of HRK 83 million, which also solves the problem of overstated Podravka fixed assets, whose book value has now been brought in line with their market value; in addition, the equity of the affiliated company Danica d.o.o. was reduced. As a result, the Podravka Group net profit was reduced to HRK 21 million.



Total 1999 revenue was HRK 2,494,627 thousand which is 1% lower than in 1998, mainly due to lower sales in the strategic markets of Croatia, Poland, Bosnia-Herzegovina and Russia. Croatia has seen its overall economic activity reduced in 1999, which brought about a fall in GDP. Real personal consumption was lower by 3%, and this was reflected in a fall in Group sales of 2.75%. The fall in sales in Croatia was also caused by an increase in unemployment, a decrease in purchasing power, a reduction in tourist inflows due to the military activities carried out in Yugoslavia, and the cessation of delivery to companies because of late payments or business failure. As for the Polish market, the Group had no production plants there in 1999, which resulted in prices not being competitive with those of domestic Polish or multinational companies as well as in delays in new product launch; the marketing activities carried out were inadequate for achieving our strategic goals in the Polish market, resulting in reduced sales. In Bosnia-Herzegovina, there was a fall in sales due to high collection risk, high customs duties and other charges. In Russia, sales were reduced because of the economic crisis and unstable political situation. All other export markets recorded an increase in sales compared to 1998.

In Croatia, a major problem for our operations was the growing lack of liquidity in the economy; for example, the Ministry of Defence and the Croatian Health Insurance Institute, which provide 44% of our total receivables in the Republic of Croatia, did not settle payment on time. Late payment from other clients also increased in 1999, forcing Podravka to finance its operations through short-term loans at high interest rates, which had an adverse effect on the profit level. The entry of large retail chains in the Croatian market improved collection but also squeezed margins, which in turn reduced profit. However, the continued process of restructuring resulted in lower costs in 1999, especially with regard to raw materials, which offset the negative impact of the problems Podravka experienced in some of its markets and resulted in a significant operating profit.

The year 1999 was marked by investments without precedent in the history of the company. A new Belupo plant and a new Vegeta plant came on stream in Koprivnica. A new integrated IT system was successfully implemented in co-operation with the SAP company, allowing the company to upgrade and expedite business processes at the Group level. The beginning of March saw trial runs

of the new Vegeta, soup and powdered products plant in the Kostrzyn favoured economic zone in Poland, which should enable us to solve the problem of competitive prices and logistics in the Polish market. In addition, 1999 saw a continuation of the powerful innovative cycle in all product groups, which resulted in a series of new or improved products.

In mid-1999, Podravka increased its capital by HRK 78,900,000 due to an additional investment of the European Bank for Reconstruction and Development, earmarked for strategic investment financing. Podravka purchased the 50% stake in Podravka Kft. Mohacs held buy Cerere s.r.l. of Italy and so became sole owner of the company. As for our pharmaceutical operations, Belupo lijekovi i kozmetika d.o.o. signed a number of important licensing agreements with the well-known multinational pharmaceutical companies SmithKline Beecham and F. Hoffman La Roche to produce and sell two new drugs.

In early 1999, the Podravka d.d. Supervisory Board relieved from duty two Management Board members responsible for two key areas of operations - branded food products and pharmaceuticals - so the Management Board continued with five members.

On 14 March 2000, the Supervisory Board appointed a new Management Board with five members: Darko Marinac, President of the Board, Željko Đurdina, Vice President, Nevenka Cerovsky, responsible for finance, Damir Polančec, responsible for market development in Croatia and South-Eastern Europe, and Davor Cimaš, responsible for foreign market development.

Podravka has met all the key prerequisites to continue development and achieve prosperity. It will continue to focus on its core activities and foreign markets, while restructuring through cost cutting and finding solutions for unprofitable operations. It will look for strategic partners that will enable Podravka to maintain its independence in operations while strengthening its competitiveness against multinationals. We are convinced that by making adequate provisions to cover restructuring costs, posting real fixed asset values, improving business organisation, continuing the innovation process, increasing investment in key markets, and employing the best professionals to manage strategic functions, we can ensure our continued profitable growth and further extension of our operations in the international arena. This will make us ready for listing on an international stock exchange, which should have a favourable effect on our share price and our return on equity, thus protecting the interests of the owners, employees and business partners of Podravka.

We are confident in the future of Podravka and would like to thank all employees, the union and employee association representatives, and the members of the Management Board and Supervisory Board for their joint effort which has brought about a good business performance and paved the way for the Management Board to continue the process of profitable growth.



**Ante Babić\***

President of the Management Board  
of Podravka d.d. until 14 March 2000



**Darko Marinac**

President of the Management Board  
of Podravka d.d. after 14 March 2000

\* Ante Babić's resignation in order to retire was accepted by the Supervisory Board in February 2000.

# MANAGEMENT BOARD



**Ante Babić**  
President



**Vlado Marić**  
Vice President



**Branka Perković**  
Member



**Stanislav Biondić**  
Member



**Jürg Schütz**  
Member



## REPORT BY THE MANAGEMENT BOARD

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## TOTAL REVENUES

Total revenues of HRK 2,557.8m were generated in 1999, which is 1% less than the previous year.

Of the total revenues, HRK 2,494.6 (97.5%) was generated by operating activities and the remaining HRK 63m (2.5%) by financing activities.

The sale of goods and services generated HRK 2,420m or 94.7% of total revenues.

## SALES IN THE CROATIAN MARKET

The negative trends in the Croatian market made business difficult for all companies. Firstly, the general problem with liquidity, which escalated in 1999, affected the sale of Podravka products; Podravka ceased doing business with about a hundred buyers who were unable to settle their payments. Secondly, revenues from the tourist season in Croatia were much lower than expected due to the war in Kosovo. Thirdly, the general economic situation in the country caused an increase in unemployment and therefore a decrease in purchasing power, resulting in lower than expected sales. Fourthly, as in all European countries in transition, the greater segmentation of the market and the arrival of large multinational retail chains affected product range expansion, product innovation in accordance with consumer trends, and pricing policy. Due to these circumstances in the Croatian market, Podravka made extra effort to intensify the sale of its goods and services in the strategic markets in Central and Eastern Europe and to penetrate into new, more demanding and more saturated markets.

Sales in the Croatian market in 1999 amounted to HRK 1,351.5m, 3% down on 1998. Domestic sales accounted for 56% of total sales, the same as in 1998, which shows the importance of this market in the business of the Podravka Group, a market which has been subject to unfavourable conditions, particularly lack of liquidity.

The following product groups recorded sales growth in the Croatian market: Podravka Dishes 17%, Lino products 2%, Vegeta 6%, Dolcela 8%.

## SALES IN CROATIAN MARKET

		(in HRK 000)
	1999	1998
Podravka Dishes	79,697	67,854
Vegeta	109,539	103,291
Lino products	76,444	75,298
Dolcela	43,741	40,427
Drugs	403,873	402,915

## SALES IN FOREIGN MARKETS

In the last ten years, since the beginning of its systematic penetration into foreign markets, especially those in Central and Eastern Europe, which are now highly competitive, Podravka has established nine trading companies and three production companies in foreign countries. Thus Podravka has become a multinational company which generates almost half its revenues in foreign markets.

Sales in foreign markets in 1999 amounted to HRK 1,069.4m, or 44% of total sales, which is 2% down on the previous year. Today Podravka exports to more than 30 countries. The most important foreign market is Poland, which generated almost 13% of total sales and almost one third of total sales in foreign markets. Changes in distribution in the Polish market resulted in a fall in sales of about HRK 30m, which partly accounts for the fall in total sales in foreign markets and the fall in total sales. Podravka's activities in the strategic Polish market were focused on strengthening its market position by considerable investment in the market, especially for Vegeta. This was necessary due to increased and aggressive competition in the area of seasonings. In 1999, new products were introduced in the Polish market, and the range which includes Vegeta, packet soups and soup cubes, special seasonings and 'ajvar' (pepper relish) was extended to include Fini-Mini instant soups and Talianetta pasta dishes.

The second largest foreign market was Slovenia, which generated 19% of sales in foreign markets. Although the Slovenian market is rather small (2 million people), it is important to Podravka. Podravka has the reputation of a quality, trusted and respected company; it has distributed its products there since 1974 through a representative office in Ljubljana and later through its own company. In 1999, sales increased by 2% compared to 1998. In the segment for seasonings, Vegeta is the market leader with a 75% market share; Lino products also have a leading position with 57%, while packet soups have 20% and soup cubes 18%. Dolcela puddings also hold a significant market share. As in most countries in transition, globalisation has resulted in a few, large retail chains dictating prices and conditions for supplying goods in this market. Podravka's future strategy in Slovenia is to continue to invest in leading brands so as to increase sales and eventually market share.

Bosnia-Herzegovina is the next largest market, generating 12.4% of total sales in foreign markets. In 1999, Podravka placed special emphasis on the development of its own distribution system throughout Bosnia-Herzegovina, which is a complex market made up of the Federation of Bosnia-Herzegovina and the Republic of Srpska. It is therefore important to take into account all the specifics of this market, including political and geographical differences. Sales operatives cover the whole market, while buyers are classified according to role, function and sales in their particular region. As a basic principle, sales are made to medium sized buyers who dominate the specified regions and settle payment promptly. Podravka is best known in this market for Vegeta, soups, children's food and canned meat products, which hold the largest market share.

Other import foreign markets are Hungary, with 5.7% of foreign sales, Macedonia with 4.7%, the Czech Republic with 4.2%, Slovakia with 3.9% and Germany with 3.5%. Sales in the Russian market provided only 1% of foreign sales and are falling due to the political and economic situation in the country.

In 1999, the competition for market position in Hungary between multinationals and domestic wholesale chains resulted in pressure on producers to reduce prices. It is expected that only the strongest wholesalers and producers will survive. The producers who survive will be those with the best quality products and the ability to adapt to market demands along with minimum prices and increased benefits to the sellers. In the course of last year, Podravka confirmed its position in this market as a leading supplier of a wide range of branded food products. The following products were sold in the Hungarian market: Vegeta, Podravka soups, Talianetta, special seasonings under the brand name Fix, Lino children's food and Dolcela dessert products. During 1999, a number of new products were introduced: Munchy Meals-cereal flakes in seven different flavours, Fini-Mini instant soups, Talianetta pasta dishes and Vegeta packaged in 3 and 5 kilogram packets.

In 1995, Podravka decided to set up production facilities in new markets, and in the CEFTA countries in particular, in order to be more competitive by circumventing high import tariffs, and, since these countries have special co-operation agreements with the EU, to expand sales into Western Europe. Therefore Podravka established a Vegeta plant in Mohacs in Hungary. Production in the Vegeta plant commenced in 1996. Initially, the plant was jointly owned by Podravka and the Italian company Cerere s.r.l. but Podravka acquired sole ownership on 12 August 1999.

In the Czech Republic, as in most countries in transition, sales are concentrated in large wholesale chains that dictate the business conditions. In 1997, there was only one foreign wholesale chain among the top ten, while in 1999 all top ten chains were foreign owned. Podravka started distribution in the Czech Republic in 1997 and since then has experienced considerable sales growth and achieved a significant market share. In the Czech Republic, Podravka markets Vegeta, soups, Fini-Mini instant soups, special seasonings and Talianetta pasta dishes. Podravka has recently penetrated several large consumer markets such as hotels, restaurants, schools and the like.

Sales in Slovakia increased by 37% in 1999. This was due to the introduction of Podravka's own distribution network and the expansion of the product range to include soups, Fini-Mini instant soups, special seasonings, Talianetta pasta dishes and ajvar.

All other markets generated sales of HRK 171.6m in 1999, or 16.1% of total foreign sales.



The overseas markets include the USA, Canada and Australia. In the USA and Canada, Podravka products are sold through distributors, while in Australia, Podravka does business via an affiliated company. The following Podravka products are sold in the Australian market: Vegeta, canned meat, processed fruit and vegetables, children's food and teas. Total sales in 1999 were 17% up on 1998. The market leader in seasonings is Vegeta and two new products from the same line were introduced in 1999 - chicken-flavoured Vegeta and seafood-flavoured Vegeta. Vegeta is exported to Australia in large packages which are re-packed into commercial packages by Podravka's service company.

Sales growth in 1999 compared to 1998 was recorded in the following markets: Slovenia 2%, Hungary 24%, Macedonia 3%, Czech Republic 24%, Slovakia 37% and Germany 8%.

In Macedonia, Podravka established its own distribution network in 1999 and the number of direct buyers increased to 300. Due to this, the sales operative was strengthened and product volume and variety increased. The humanitarian catastrophe that Macedonia experienced in 1999 as a result of NATO attacks on Yugoslavia increased the inflow of refugees and, as a result, the market suffered. Nevertheless, there was an increase in sales of some products, such as canned meat. Sales growth is still dependent on quotas which are determined on a yearly basis.

Podravka has been present in the German market, and through this in EU countries, for over 18 years. In 1999 it sold: Vegeta, special seasonings, ajvar, soups, children's food, processed fruit and vegetables, and canned meat. Sales were 8% up on 1998.

## SALES BY MARKETS

Country	Sales 1999	Share	<i>in HRK 000</i>	
			Sales 1998	Share
Croatia	1.351,561	55.83	1.389,788	55.99
Poland	311,253	12.86	362,754	14.61
Slovenia	202,216	8.35	198,264	7.99
Bosnia - Herzegovina	132,354	5.47	144,515	5.82
Hungary	60,890	2.52	48,936	1.97
Macedonia	49,938	2.06	48,461	1.95
Czech Republic	44,863	1.85	36,328	1.46
Slovakia	41,577	1.72	30,263	1.22
Germany	37,286	1.54	34,635	1.40
Russia	17,357	0.72	43,502	1.75
Other countries	171,647	7.09	144,884	5.84
<b>TOTAL EXPORTS</b>	<b>1.069,381</b>	<b>44.17</b>	<b>1.092,542</b>	<b>44.01</b>
<b>TOTAL SALES</b>	<b>2.420,942</b>	<b>100.00</b>	<b>2.482,330</b>	<b>100.00</b>

## SALES BY MAIN PRODUCT GROUPS IN 1999

Product	Sales 1999	Share	<i>in HRK 000</i>	
			Sales 1998	Share
Vegeta	720,018	29.74	711,649	28.67
Drugs	456,199	18.84	457,651	18.44
Meat and meat products	277,619	11.47	298,060	12.01
Podravka Dishes	185,327	7.66	172,857	6.96
Merchandise	130,410	5.39	167,137	6.73
Processed vegetables	100,292	4.14	111,180	4.48
Lino products	120,451	4.98	116,232	4.68
Dolcela	76,692	3.17	70,361	2.83
Beverages	50,563	2.09	58,283	2.35
Processed fruit	39,081	1.61	38,430	1.55
*Other products	264,290	10.91	280,490	11.30
<b>TOTAL</b>	<b>2.420,942</b>	<b>100.00</b>	<b>2.482,330</b>	<b>100.00</b>

\*Other products – cocktail biscuits and similar products, tea, wafers, yeast, flour and semolina, bread and other bakery products, cosmetics, artwork utensils, transit sales, retail sales, sales to company canteens and restaurants, merchandise from barter, services.

Vegeta accounts for almost one third (29.7%) of total sales. It is one of the most profitable products and the most important production programme, with a continued upward trend in sales.

Drugs, the second most profitable production programme, generated 18.8% of the Group's profit and maintained the previous year's sales of about HRK 450m.

Next come meat and meat processing with 11.5%, Podravka Dishes with 7.7%, processed vegetables with 4.1%, Lino products with 4.9%, Dolcela with 3.2%, beverages with 2.1%, processed fruit with 1.6% and numerous other products with 10.9%.

The following product groups achieved increased sales: Vegeta 1%, Podravka Dishes 7%, Lino products 4%, Dolcela 9% and processed fruit 2%.

## EXPORTS

The export of products and services, including the production of companies abroad, generated USD 95.7m, which is 11% less than the USD 108m generated in 1998. Targeted export is carried out mainly in the countries of Central and Eastern Europe, but there are also exports to Western Europe, the USA, Canada and Australia.

## IMPORTS

The Podravka Group imports numerous raw materials such as glutamate, dried vegetables, vitamins, aromas, spices, concentrates and active substances for drug production. There is also a significant import of packaging materials, equipment and spare parts for the maintenance of production facilities, and IT and other equipment. Total imports in 1999 amounted to USD 73m, 4% less than in 1998. Imports were completely covered by exports. The ratio of exports to imports was 1.31:1.

## STRUCTURE OF IMPORTS

	Imports 1999	Share	<i>in USD 000</i>	
			Imports 1998	Share
Raw materials and packaging	46,942	64.34	45,902	60.61
Equipment	11,429	15.66	14,193	18.74
Merchandise	13,939	19.10	15,383	20.31
Other	651	0.90	254	0.34
<b>TOTAL</b>	<b>72,961</b>	<b>100.00</b>	<b>75,732</b>	<b>100.00</b>

The structure of imports in 1999 is somewhat different than in 1998. The import of raw materials and packaging amounted to USD 46.9m, which is 2% up on 1998. However, the import of equipment was 19% down on the previous year, due to entry into the final phase of the strategic investment projects as well as a reduction in the import of merchandise resulting from a drop in sales of Ferrero products. 75% of total imports came from five countries: Italy, Germany, Switzerland, Slovenia and Austria.

## STRUCTURE OF IMPORTS BY COUNTRY

Country	Imports 1999	Share	in USD 000	
			Imports 1998	Share
Italy	16,439	22.53	19,811	26.16
Germany	14,197	19.46	15,411	20.35
Switzerland	12,306	16.87	10,052	13.27
Slovenia	7,353	10.08	6,103	8.06
Austria	5,619	7.70	5,981	7.90
France	4,436	6.08	5,996	7.92
Hungary	3,494	4.79	2,850	3.76
Netherlands	2,709	3.71	2,221	2.93
Other countries	6,408	8.78	7,307	9.65
<b>TOTAL</b>	<b>72,961</b>	<b>100.00</b>	<b>75,732</b>	<b>100.00</b>

## COSTS

Cost reduction continued in 1999. Total costs in 1999 amounted to HRK 2,527.8m and are at the same level as in 1998 due to high extraordinary costs (HRK 83m). Materials costs and other operating costs were reduced as a result of constant improvement of the production processes, a better use of materials, a more transparent monitoring of the business processes through the introduction of the SAP information system, rationalisation in warehousing and logistics, a reduction in non-cost-effective sales promotions and sponsorships, and a reduction in restructuring costs and consultation fees.

An increase in some types of cost resulted from increased business activity, the opening of representative offices abroad, the construction and start-up of new plants, an increase in the price of energy sources (diesel fuel, petrol, water) and an increase in the price of transport services. Another group of costs increased due to economic policy; they include interest rates, exchange rate differences and provisions for bad and doubtful debts.

The largest costs were materials costs, which accounted for 56.31% of total costs, 6% less than in 1998.

Personnel costs accounted for HRK 461.9m, which was 4% up on 1998. This increase is the result of additional bonuses on certain projects, an improvement in the level of staff qualifications, an increase in the number of employees in Podravka subsidiaries and abroad, such as in the new plant in Poland, an additional cost of about HRK 2.5m for a Christmas bonus above the collective agreement and which is taxable and therefore entered as salary cost, and employment contracts in subsidiaries abroad where reimbursement is in foreign currencies.

Depreciation costs were 6% higher than the previous year as a result of activating capital investments. There was a considerable reduction (10%) in other operating costs.

### STRUCTURE OF COSTS IN 1999/1998

Cost	<i>in HRK 000</i>			
	1999	Share	1998	Share
Materials costs	1.423,402	56.31	1.509,249	59.84
Personnel costs	461,851	18.27	444,957	17.64
Depreciation	128,072	5.07	120,685	4.78
Other costs	298,716	11.82	332,387	13.18
Financing costs	132,699	5.25	115,148	4.56
Extraordinary costs	83,030	3.28	0	
<b>TOTAL</b>	<b>2.527,770</b>	<b>100.00</b>	<b>2.522,426</b>	<b>100.00</b>

Financing costs were extremely difficult to manage in the unstable conditions and with an exchange rate rise. Podravka achieved significant imports, while almost all loans taken were denominated in foreign currencies, which resulted in high interest costs and negative exchange rate differences.

## STRUCTURE OF MATERIALS COSTS

Cost	<i>in HRK 000</i>			
	1999	Share	1998	Share
Raw materials	735,895	51.70	791,510	52.44
Purchase value of goods sold				
+ dependent costs of purchasing abroad	332,743	23.38	373,385	24.74
Energy costs	51,263	3.60	47,849	3.17
Transport services	55,299	3.88	48,936	3.24
Sales promotions	139,160	9.78	133,965	8.88
Servicing and spare parts	20,871	1.47	21,493	1.42
Services (municipal, consulting, design)	55,429	3.89	74,824	4.96
Other	32,742	2.30	17,287	1.15
<b>TOTAL</b>	<b>1.423,402</b>	<b>100.00</b>	<b>1.509,249</b>	<b>100.00</b>

Most of the costs within materials costs are down on the previous year: raw materials -7%, purchase value of merchandise - 11%, servicing and spare parts -3%, and services (municipal, consulting, design) -26%. For reasons already mentioned, some costs rose: energy 7%, transport services 13% and sales promotion 4%.

### PROFITABILITY

In 1999, Podravka achieved an operating profit of HRK 182.6m, a pre-tax profit of HRK 113.1m and a profit from ordinary activities of HRK 104m which is 51% up on the 1998 net profit figure.

There were extraordinary items in 1999 referring to the write-down of fixed assets and a reserve for the continuation of the restructuring process. The extraordinary items resulted in a reduction in the net profit of HRK 21m.

The profitability of the Podravka Group would have been higher if there had not been large write-offs of bad debt and high financing costs. Profitability was also adversely affected by the fall in sales.

Podravka d.d. achieved a profit from ordinary activities of HRK 173.2m; however, after the inclusion of extraordinary items, the company recorded a loss.

The following subsidiaries recorded a profit: Belupo d.o.o., Koprivnička tiskarnica d.o.o., Sana d.o.o. Hoće i Podravka Kft Mohacs, Hotel Podravina d.o.o. and Podravka Inženjering d.o.o.

The following foreign subsidiaries recorded a loss: Podravka d.o.o., Ljubljana, Slovenia, Podravka-International d.o.o., Warsaw, Poland, Podravka d.o.o. Široki Brijeg, Bosnia-Herzegovina, and Podravka Polska Sp.z.o.o., Kostrzyn, Poland. The other foreign subsidiaries recorded a profit.

## REVENUES, COSTS AND PRE-TAX PROFIT FROM 1997-1999

	<i>in HRK m</i>		
	<b>1999</b>	<b>1998</b>	<b>1997</b>
Revenues*	2,558	2,580	2,411
Costs**	2,445	2,523	2,371
<b>Pre-Tax Profit</b>	<b>113</b>	<b>57</b>	<b>40</b>

\* operating revenues + financing revenues

\*\* operating costs + financing costs

# BRANDED FOOD PRODUCTS

## MARKETING AND SALES

The main aims of Podravka's marketing strategy are: to maintain its leading position in the Croatian market, to increase its market share and strengthen its market position in Central and Eastern Europe, to expand into new markets, in particular EU countries and countries overseas, and to satisfy buyers of Podravka goods and services. Podravka aims to achieve a high profit rate in all its markets, especially regarding branded food products, which have priority in its marketing activities. The marketing tactics in 1999 included co-marketing and the development of close relations with key buyers and business associates in the field of consumer goods production.

From the organisational point of view, the marketing activities are carried out by teams set up primarily according to brands and product groups and subdivided according to markets. Sales, on the other hand, is organised according to individual markets or groups of markets that are connected both geographically and in structure and consumer habit. The team for the gastro programme serves all the other marketing and sales teams in Croatia and abroad and is organised according to type of customer. The gastro team operates in three market segments: Horeca (hotels, restaurants, marinas, catering services), large customers such as the Ministry of Defence and the Ministry of the Interior, student centres, hospitals, kindergartens, schools, retirement homes etc.) and industrial buyers (food producers, bakeries, companies etc.). The gastro team introduced many innovations in business-to-business marketing in 1999, including an important contribution to the international promotion of Croatia at the Croatian Food Festival at the UN headquarters in New York in November 1999.

During 1999, Podravka centred its marketing activities in the Croatian market on maintaining its wide range of products while focusing on brands that have a dominant position. Podravka has all its key brands represented in its strategic foreign markets. The marketing strategy also incorporates redesigning and expanding Podravka's product range; in 1999, the innovation cycle resulted in the introduction of many new products and product groups.

Following the development of new communications technologies and media, Podravka has had its World Wide Web page ([podravka.com](http://podravka.com)) on the Internet since 1998. This web page has been highly praised by computer experts and the general public for its content and design. In 1999, the web page was upgraded with new content, so that it gives the visitor full information on Podravka's products and business activities; in addition, the site contains a variety of recipes for consumers to enjoy.



Podravka is a culinary institution with a 50-year long tradition of commitment to culinary creativity and the development of new habits and ways of preparing and serving food among people all over the world. Therefore, it has created widely-known brands which adjust easily to any national cuisine, respecting local characteristics while giving them new dimensions. The close relationship between Podravka, its brands and consumers all over the world is reflected in the unique way in which Podravka offers its modern, top-quality and easy-to-use products, together with a whole range of supporting features, like cookbooks, culinary tips and little secrets which inspire the customers to use Podravka's brands according to their own taste, habits and inclinations.

Preserving and revitalising culinary traditions, but keeping an open mind to modern culinary trends, always in line with the philosophy of healthy nutrition and healthy lifestyle - those are Podravka's distinguishing features.

Not limiting its activities to food production alone, but being involved in everything that constitutes cuisine, Podravka became a renowned culinary institution and a permanent source of culinary ideas.

## Vegeta

*Vegeta, an original Croatian seasoning, is something of a culinary phenomenon; since it was created 42 years ago, it has reached homes in more than 30 countries all over the world and has become an indispensable component of almost any dish*

Vegeta is the best-known original Croatian product, a unique mixture of spices and dried vegetables which, as a universal seasoning, enriches and enhances the taste of a wide variety of dishes: soups, starters, stews, roasts, sauces, salads and so on; thus it can be used in all kitchens in the world. The origins of Vegeta date back to 1958, when a Podravka expert team, headed by Professor Zlata Bartl, winner of high Croatian decorations for life achievement, created Vegeta. The market welcomed Vegeta and it soon became indispensable in any kitchen and an obligatory addition to any meal.

Through constant promotional activities, Podravka has made Vegeta a well-known brand. The phrase 'Vegeta cuisine' has become a synonym for good cuisine, just as Vegeta itself has become a synonym for seasoning. As a result of constant culinary research and exploration of new ways of using Vegeta, Podravka has created a broad collection of Vegeta cookbooks. In addition, the TV series "Little Secrets of Great Chefs", which celebrated its 25th anniversary of

broadcasting and 500th episode in 1999, has expanded beyond its primary promotional purpose and become an educational culinary show. In 1999, about a hundred recipes used on the show were published in the book *Vegeta Cuisine Recipes*.

New ways of using Vegeta in various traditional and modern recipes are constantly being found. What is more, in 1999, after forty years of existence, Vegeta reached the market in two new forms - as medallions which are precisely portioned for a given quantity of food and as sprinkling Vegeta, which can enrich the flavour of a dish without being cooked.



Vegeta is Podravka's most important brand in business terms too. It is sold in 33 countries and its share in Podravka's total sales amounted to 29.7% last year. Vegeta's market position is dominant, strong and favourable in many markets; for example, its market share is 95% in Croatia, 85% in Bosnia-Herzegovina, 72% in Slovenia and Slovakia, 52% in the Czech Republic, 39% in Poland etc.

## Podravka Dishes

*The Podravka Dishes brand offers a range of culinary pleasures and requires little creativity and little time to prepare, whether it is the famous Podravka soups, pasta dishes, sauces, vegetable stews or something else*

Local and regional flavours are taken into account when creating Podravka Dishes - a wide range of high-quality practical products which allow customers the freedom to show their creativity and culinary imagination.

Podravka Dishes include packet soups, soup cubes, Fini-Mini instant soups, Fant/Fix special seasonings, Talianetta semi-ready pasta dishes and semolina and liver noodles - a total of 80 various products. Last year, this brand was the flagship for an innovative production cycle initiated by Podravka in its aim of constantly renewing and enriching its product range and in order to keep up with the trend towards convenience foods. New sub-groups of products were introduced, along with new packaging; the entire brand was re-designed to make all the products visually uniform and recognisable and to achieve the billboard effect at the points of sale.



In business terms, Podravka Dishes generated 12.5% of Podravka's total sales. A rise in sales with regard to the previous year was recorded in many markets; the sharpest rises were recorded in Croatia (42%), Bosnia-Herzegovina (34%), the Czech Republic (76%), Poland (22%) and Slovakia (21%).

## Dolcela

*a dessert is more than just food - it is a pleasure, fantasy, magic... Dolcela embodies this idea by its design, its lightness and its quality*

The Dolcela brand comprises dessert products, products for the preparation of cakes, confectioneries and puddings. This brand builds a sweet culinary institution, respecting the tradition of individual markets. Imaginative preparation suggestions published in numerous recipes and cookbooks involve the customers and stimulate the creation of new products. This is the baseline of the communication strategy: the customers are active participants in the creation of the product. The Dolcela brand is therefore more than an ordinary dessert or cake - it is a sweet touch of fantasy.



In business terms, the sales volume last year was up on the previous year, and strong market shares were achieved in certain markets; for example, a market share of 56% in Croatia, 54% in Slovenia and 30% in Bosnia-Herzegovina.

In 1999, sub-groups of the Dolcela branded products were re-designed: puddings (with the flavour of vanilla, chocolate, cocoa, raspberry and strawberry), vanilla sugar, baking powder and cream fix, and two new products were introduced to the Croatian market - Fuzzy Pie and Dolcafé Cappuccino.

## Lino

*it is not easy to make children's wishes come true, but that is why there's Lino; Lino children's food, cereal flakes or bars satisfy hunger and provide young growing bodies with the necessary nutrients*



Podravka's broad range of branded children's food products was named after its symbol, the popular teddy bear Lino. This brand and the slogan "Teddy bear Lino always serves something yummy!" promote natural and healthy children's food in 14 flavours: Lino Munchy Meals cereal flakes and bars, Linolada cream and Linolada milk cream, Limač compressed sweets, Ponita instant soft drink and Lino Sport energy drink. The way in which the Lino brand communicates with its customers is adapted to the age of the target group. The key visual element is the teddy bear Lino, featured on the products and the promotional materials, which include an educational calendar with drawings which every child wants to own.

In business terms, Lino products are directed primarily at Croatia, Slovenia and Bosnia-Herzegovina, and last year sales were up 6% on 1998.

## Podravka beverages

*Nature knows that good health depends on healthy food and healthy drinks - so Podravka created Studenac mineral water, Studena spring water and Deit low-calorie vitamin-enriched soft drinks*

Podravka beverages are instant solutions for everyone's need for healthy and natural refreshment. As the environment becomes more polluted, environmental and health awareness becomes stronger. The products in the Podravka beverages range - the famous Studenac mineral water, both carbonated and non-carbonated, Studenac pure spring water for drinking and cooking, and Deit non-alcoholic vitamin-enriched drinks - will quench your thirst and offer refreshment and the enjoyment of a pure product of nature.



In 1999, the labels of all the mineral waters were re-designed, which gave them a new, modern look. In addition, new products were introduced to the market - Studenac low-carbonated mineral water and Studenac natural spring water. The mineral water range was thus broadened with three brands in nine different packages in returnable (glass) and non-returnable (PET) containers.

## Other products

### Fruit

Processed fruit products are the oldest group of Podravka products, on the market since the beginning of today's Podravka in 1947. This tradition, coupled with the development of new products, is a guarantee of quality that is recognised by customers. The processed fruit products comprise marmalades in eight flavours, jams in four flavours and honey - primarily intended for the catering industry.

In 1999, a new sales strategy for processed fruit products was defined, and work started on re-designing the packages and extending the product range. The deadlines for placement on the market in the course of 2000 were set, and a new strategy of communicating with the customers was formulated. The most important market for processed fruit products is Croatia, where 86% of sales are generated.

### Vegetables

As with fruit, Podravka has processed vegetables since its very beginning. Today, processed vegetable products comprise the following: peas, French beans, cucumbers, peppers, carrots, corn, chilli peppers, beetroot, mixed salad, button mushrooms, olives, djuveč (sautéed rice with meat and vegetables), and tomato-based products, including tomato concentrate, tomato juice, skinned tomatoes and sieved tomatoes.

Processed vegetable products accounted for 4.1% of total sales in 1999. About 89% of these sales were in the Croatian market, and the most important export markets were Australia, Slovenia, Germany and the USA. Preparation of a new marketing strategy for this product range was continued in 1999, and the strategy will be fully implemented in 2000 and 2001.

### Condiments

This product group comprises 'ajvar' (pepper relish), mustard, horse-radish and ketchup. Despite the intensified competition in 1999, Podravka holds a dominant position in the Croatian market in the sale of ajvar and mustard. A new market strategy for condiments was worked out in 1999 which includes new positioning and brand architecture and a broader range. Sales are generated primarily in the Croatian market.

### Podravka tea

In 1999, the entire range of Podravka teas was re-designed and a new strategy for approaching the market and the customers was initiated. At the end of 1999, two tea lines were introduced to the market - Old Friend fruit and herbal teas and The Gardens of the East black and green teas. In early 2000, two other product lines were introduced to the market - The Symphony of Taste and Rendez-Vous - which complete Podravka's tea range. The new Podravka teas convey a new message to the customer: tea is not just a remedy for the sick, it is an everyday drink for a better mood and good company. The new Podravka teas are a step in the establishment of a tea-drinking culture, which is still not developed enough in Croatia.



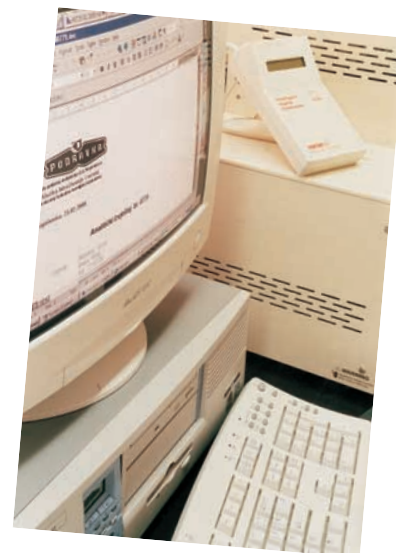
## Salted snacks

Podravka's salted snacks are united under the Kwiki brand. These are: pretzels, cocktail sticks, coin- and fish-shaped biscuits, cocktail biscuits and Kwiki-gric in three flavours. Two new flavours of Kwiki-gric were introduced in 1999 - smoked ham and herbal. Besides Croatia, the most important markets for Podravka snacks are Macedonia, Slovenia and Bosnia-Herzegovina.

## RESEARCH AND DEVELOPMENT

In accordance with Podravka's business policy for growth and development, the main activities in 1999 were directed towards product range innovation, the application of the SAP R/3 integrated information system, further improvement in quality control and continuation of the environmental protection programme.

The introduction of the SAP R/3 integrated information system greatly affected the whole Group and therefore R&D. A register of recipes of all products and updated data was entered into the SAP system with the long-term aim of further rationalisation and cost-cutting, efficiency and harmonisation with the other units in the Podravka Group. The entry into the SAP system of the register of product recipes, which includes all the raw materials that are used in the production processes, enables the efficient control and monitoring of costs throughout all processes.



## INNOVATIONS

The orientation towards permanent product innovation, especially in terms of improved quality in line with new technologies and knowledge, and towards new products is one of the key strategic orientations of the Podravka Group. In 1999, the matrix organisation and emphasis on team work in combination with elements of process organisation contributed, through quantitative and qualitative selection, to the development of more than 100 new products and the improvement of almost 150 existing products. Since the legal regulations and controls during the registration of new products vary in Podravka's foreign markets, great effort was put into product development and the preparation of documentation so that certain products could be launched in these markets.

The development teams are divided according to product groups, and the six teams developed or improved more than 250 products.

1. The development of soups and seasonings: 50 new and 83 improved products
2. The development of confectioneries: 4 new and 20 improved products
3. The development of children's food: 15 new and 3 improved products
4. The development of fruit, vegetable and teas products: 25 new and 17 improved products
5. The development of beverages: 4 new and 5 improved products
6. The development of flour-based confectioneries: 11 new and 19 improved products.

This development of new and improved products provides the foundation for further growth and justifies the overall business policy of growth based on Podravka's own knowledge, work and investment.

In addition to the development of new and improved products, the Podravka Group is also oriented towards the expeditious use of new, sophisticated technology which enables improved quality, improved cost control and improved business overall. The joint work of R&D and Production led to the introduction of a new technology for the aseptic processing of tomatoes in the vegetable processing plant in Umag. This aseptic technology enables the processing and packing of tomatoes without the use of preservatives; this is one more contribution by the 'warm culinary institution' to the culture of healthy food. In addition, the R&D employees actively participated in equipping the new Vegeta and soup plant in Koprivnica and the Vegeta, soup and powdered products plant in Poland. The sophisticated technology that will be used in these new plants, together with the SAP R/3 information system, will enable greater productivity, cost control and cost saving, and production that does not harm the environment.



## QUALITY CONTROL AND IMPROVEMENT

In 1999, the Podravka Group received authorisation from Croatia's Ministry of Health to test the quality and health parameters of food products. Prior to and during the production process, quality control is carried out on entry raw materials, intermediate products and finished products. Quality control relates to product usability, duration, reliability and aesthetic characteristics and has been carried out at Podravka for many years. The authorisation from the Ministry of Health is a confirmation of Podravka's expertise in quality control.

In addition, the two-year project was continued to operate the laboratories according to the international HRN EN 45001 standards. The implementation of these standards, which provide general conditions for the operation of all test laboratories, will enable uniform communication between all laboratories, the application of high international standards, greater efficiency and a further reduction in R&D costs.

Quality control is carried out in central laboratories and in control laboratories in the production plants. The laboratory services are operated according to the standards of Good Laboratory Practice and Good Manufacturing Practice. Control according to strict quality and health parameters is carried out on raw materials, work-in-progress and finished products as well as packaging and the technological processes. The rationality of implementation according to the highest standards ensures adherence to the principles of Hazard Analysis of Critical Control Point.



The R&D department also carries out quality control on the agricultural land and on the produce intended for processing in Podravka's plants in order to ensure the quality of the raw material. In 1999, a systematic training programme was carried out for farmers on the use of protective measures and the rational use of fertilisers, and soil fertility was also tested. Research into the qualities of a large number of new sorts of agricultural produce was carried out at Podravka's test field and the best were put into production.

# BELUPO d.o.o.

Pharmaceuticals are, after food, the second strategic activity carried out by the Podravka Group. Belupo, which operates within the Podravka Group, is the second largest pharmaceutical company in Croatia. Belupo is strategically focused on four drug groups according to the anatomical-therapeutic-chemical (ATC) classification:

1. Drugs that affect the cardiovascular system;
2. Drugs that affect the osteomuscular system;
3. Drugs that affect the nervous system;
4. Drugs that affect the skin.

There are a number of reasons to focus on these drugs: a long production tradition, a relatively high rate of usage, and co-operation with other leading global producers of these same pharmaceutical products.

In September 1999, Belupo opened a new plant for human drugs, representing an investment of 72 million German marks. This plant meets the most rigorous standards of the pharmaceutical industry. Belupo's modern pharmaceutical complex consists of a production plant for drugs in solid form for oral use, a warehouse and a laboratory for the development of new formulas and quality control. The entire complex is located in the industrial zone near Koprivnica and provides the foundation for the further growth and development of the firm. It also enables co-operation with leading pharmaceutical companies with regard to the harmonisation of global standards within the pharmaceutical industry. In March 1999, a contract was signed with the pharmaceutical firm SmithKline Beecham which granted Belupo the licence to sell paroxetine, one of the world's leading antidepressants, in the Croatian market. Paroxetine will be known as Seroxat in the Croatian market. Belupo hopes to manufacture the drug independently within three years and sell it in Slovenia, Macedonia and Bosnia-Herzegovina. At the same time, the contract between Belupo and SmithKline Beecham allows for further collaboration between the two firms, which opens possibilities for other production licences for drugs from SmithKline Beecham's programme, primarily those from the four groups mentioned earlier.

In addition, an important licensing contract was signed with F. Hoffman La Roche for the sale of a new drug that Belupo registered as Carvelol. This drug affects the heart and the circulation system and is used to treat high blood pressure and heart conditions. Carvelol is the only representative of the third generation of beta blockers of adrenergic receptors authorised for the Croatian market. Carvelol represents a new therapeutic form for the treatment of essential hypertension, heart congestion and ischemic illnesses of the heart due to its numerous and valuable pharmaceutical effects. Its specific performance is due to its ability to block the alfa adrenergic receptors and so it has been placed in a special subgroup of drugs according to the ATC classification.





## MARKETING AND SALES

Sales from the pharmaceutical program are the second largest in the Podravka Group. In 1999, however, changes occurred that affected the drug market in Croatia. The sale of ethical drugs by Belupo in the Croatian market totalled 82% of total sales from all programs, so changes in the Croatian market have an important effect on Belupo's overall business results. These changes were primarily concerned with the lowered price of drugs which appear on the official list of the Croatian Health Insurance Scheme (HZZO), which averaged 8% for Belupo, constant prolongation of the payment schedules due to the lack of liquidity in the Croatian market, and the introduction of VAT, from which all drugs on the HZZO list became exempt at the end of 1999. The general economic situation has had a negative effect on the business performance of all manufacturers, so Belupo put in special effort to ensure that the cycle of purchasing, production, quality control, marketing and sales ran smoothly.

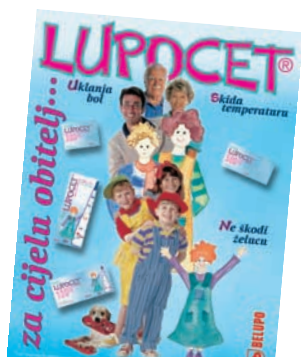
The groups of focused drugs accounted for 76% of total drug sales. The largest growth was in drugs that affect the cardiovascular system, whose sales were 15% up on 1998 and accounted for 43% of all sales of these groups.

The drugs from the four ATC groups had the largest share in Belupo's total sales. Drugs that affect the cardiovascular system generated 43.28% of total sales, dermatological drugs 7.47%, drugs for the osteomuscular system 11.46%, and drugs that affect the nervous system 14.13%.

During 1999, Belupo launched two new drugs in the market and introduced five new packagings for already registered drugs. This innovative approach to business processes as a whole and therefore in the research, development and manufacturing of new drugs and preparations is in accordance with Belupo's mission to constantly improve the quality of life of patients. It is important to note that Belupo was the first pharmaceutical firm in Croatia to introduce Braille on the packaging of drugs - the anti-rheumatic Ibuprofen (generic name: ibuprofen), and the CNS drug Normabel (diazepam) - and a Vademecum for the blind.

Belupo's Vademecum gives instructions for the use of the seven most commonly used drugs by the blind - Ibuprofen (ibuprofen), Irumed (lisinopril), Iruzid (lisinopril hydrochlorothiazide), Ormidol (atenolol), Normabel (diazepam), Verapamil (verapamil) and Fursemid (furseimide). The aim is to inform the blind about the different effects of each drug and thus enable them to lead a better quality life. The drugs which Belupo licensed for the Croatian market with Braille on its packaging, along with the drugs which are found in the Vademecum, are those that are most often used by the blind. Frequency of use by the blind is the main criteria in deciding which drug will have Braille on its packaging, and selection is carried out in co-operation with experts from the Department for Diabetes at the Vuk Vrhovac Clinic in Zagreb. Belupo intends to export drugs with instructions in

Braille to foreign markets, in particular Bosnia-Herzegovina, Slovenia, Macedonia, Slovakia and the Czech Republic.



Other programs that include herbal preparations, disinfectants and drugs for the protection of teeth generated lower sales than in 1998. The main reasons for this were the increased prices due to the introduction of VAT and the reduced purchasing power of the population.

## EXPORTS

Exports accounted for 11.56% of total sales, which is slightly lower than in 1998, although overall sales have increased by 4%. The main reason for this was a 26% drop in drug prices in the Slovenian market, which is the largest export market. This trend of declining prices also occurred in Russia and the Czech Republic. An increase in marketing and promotional activities resulted in a sales increase of 39% in Macedonia and 27% in Bosnia-Herzegovina.

Belupo exports to Central and Eastern Europe, so expanding business in these markets is part of Belupo's business strategy. Belupo's new manufacturing plant for human drugs, along with contracts with firms such as Merck & Co, Solvay Pharmaceuticals GmbH, SmithKline Beecham and F. Hoffman La Roche, represent a solid base for the sale and distribution of licensed drugs in the Central and Eastern European markets.

During 1999, considerable effort was made to expand the sales network and develop the distribution channels in foreign markets. A Belupo office was opened in Prague in the Czech Republic. A representation office was registered and an office opened in Sarajevo in Bosnia-Herzegovina, which is one of the more important export markets for Belupo. A representation office was registered and an office opened in Skopje in Macedonia, a market which saw a growth of 39% in 1999. In line with the business policy of increasing sales in foreign markets, 16 people were employed in 1999 to market drugs.

The new manufacturing plant for human drugs in Koprivnica will allow Belupo further penetration into foreign markets, and soon Belupo will launch drugs with Braille on its packaging in certain export markets.

## RESEARCH AND DEVELOPMENT

Within Belupo's Research and Development Sector, 1999 saw modern laboratories being equipped as part of the new ethical drugs plant, the introduction of new products and the registration or renewed registration of drugs in Croatia and in foreign markets.

The completion of the new Belupo plant of ethical drugs was certainly a high point in 1999, and the Research and Development employees were actively involved in equipping the new pharmaceutical complex in Koprivnica. The new laboratories for substance development and analytical development were moved into, as was the Pilot plant which will enable faster and more rational development of new drugs and preparations. The new laboratories to which the Analytical Development Department was moved have been built and equipped to meet the high standards of Good Laboratory Practice - GLP. Besides meeting the most rigorous international laboratory standards, the move enables fast and efficient communication with the Technology Development Department, which contributes to higher productivity and reduces the operating costs of the laboratory. The Quality Control employees moved to the newly constructed laboratories in the Pilot plant, which is part of the new Belupo



pharmaceutical complex. The new laboratories are equipped to meet the ISO 9001 standards and offer the laboratory employees the highest level of health protection as well as environmental protection from waste materials left over after analysis. The pure gases needed for analysis are supplied through a pipeline, while gas bottles are kept in a separate facility outside the building.

New products, namely drugs in various forms, were introduced: Retafilin injections (aminophylline ethylendiamine) and Tabex syrup (dextromethorphan bromide), which are categorised under the ATC classification as preparations affecting the respiratory system, Fursemid forte (furosemide) injections from the group of drugs which affect the cardiovascular system, and Knavon retard (ketoprofen) pills which affect the osteomuscular system. This innovative approach is a confirmation of Belupo's business strategy and quality which enabled the signing of contracts with leading pharmaceutical companies such as Merck & Co., F. Hoffman La Roche, SmithKline Beecham and others.

Belupo's mission is to improve the quality of life, especially through innovation, keeping up with the latest trends and promoting humanist principles. Thus Research and Development designed a new package for two drugs, Ibuprofen (ibuprofen) and Normabel (diazepam), which includes information in Braille, and published a Vademecum for blind persons containing all the necessary information on the Belupo drugs most frequently used by blind persons.

Four preparations developed by Belupo and two license preparations were registered and passed by the Ministry of Health of Croatia. An expanded indication was obtained from the Ministry of Health for the drug Irumed (lisinopril), which was registered in May 1999 for treating renal and retinal complications of diabetes. Clinical trials have shown that the use of Irumed slows down the progress of kidney and eye detriment in diabetes patients; this was proven in patients with insulin-dependent diabetes and normal blood pressure and in patients with insulin-independent diabetes and high blood pressure. The Synthesis Development Department completed its own synthesis of one medicinal substance and patented it.

A number of new drugs and preparations were registered in focused markets in 1999, and there was intense activity in drug registration renewal. Twelve preparations in twenty-two forms were registered in Bosnia-Herzegovina. In Slovenia, the procedure for registration renewal for five preparations in eight forms was completed and forty-two drugs in seventy-six different packages were adjusted in accordance with Slovenia's new labelling regulations. In the Czech Republic, the registration renewal procedure was completed for six preparations. Outside the focused markets, registration files were prepared for fourteen preparations in sixteen forms.

The pilot plant equipment was validated in accordance with the standards of the pharmaceutical industry, as were eight analytical methods and the processes and equipment in the new plant. 276

Standard Operating Procedures were drafted for inspection procedures in Research and Development.



## DANICA d.o.o.

Danica, the meat processing part of the Podravka Group, has been operating as a limited liability wholly-owned subsidiary since 1995. Production is carried out in four plants: an abattoir, a canned meat plant, a cured meat and sausages plant and a semi-ready meals plant. Danica's product line includes four product groups: ready meals, pâtés and pressed meat products, cured meat and sausage products, and fresh meat and frozen products.

Danica's greatest change in 1999 was in its marketing and distribution plan. The marketing activities in certain product groups were given special emphasis. The Leo brand, which includes pâtés and sausage products with mild flavours suited for children, was launched in 1998; in 1999, it was strongly promoted at trade fairs, a series of sales promotions were held in retail outlets throughout Croatia, and taste testing and other promotional activities were carried out. Furthermore, a series of promotional activities was carried out for six new products in the range of sausage products and frozen products which were introduced in the domestic market in 1999: Viennese salami, pressed ham, beer sausages, barbecue sausages, rolled shoulder of ham and picnic ham. The export programme was expanded, resulting in the export of pressed meat products and tripe to the USA.



The strengthening of the distribution channels in Croatia intensified in 1999. A new distribution centre was opened in Split, and the preparations were completed for opening a distribution centre in Osijek which will serve the Slavonian region of Croatia. In Zagreb, the largest domestic regional market, there was a marked increase in co-operation with large retail chains, such as Billa, Getro, Mercatone and Konzum.

Although Danica focuses on the domestic market, it also exports to foreign markets. In 1999, total exports were 3% higher than in 1998. However, there were unfavourable movements in the markets of neighbouring countries, which belong to Danica's strategic export markets, due to their introduction of tariffs to strengthen the market position of domestic products. As a result, Danica's market position weakened in Slovenia and Bosnia-Herzegovina. However, growth was achieved in Macedonia, Switzerland, Australia and the USA.

Danica's growth and development is based on further innovation in the product range and its adaptation to consumer demands. This is in line with trends in all markets towards healthy eating and frozen meat products. In addition, Danica aims to develop its distribution channels in the domestic market and make use of synergy with other Podravka food products in its approach to the market.

As in all sectors of the Podravka Group, Danica puts great effort into quality control at all levels of the production process. During 1999, Danica was visited by a delegation from the European Commission's Office for Foodstuffs and Veterinary Medicine, which is part of the Office for Health and Consumer Protection. Danica's entire production process was inspected, as were all technical procedures in all its plants. The European Commission reported that all measures relating to the Standard Operating Procedures (SOP) implemented by Danica were carried out with the required quality. The SOP system is part of a larger system called the Hazard Analysis of Critical Control Points, which is implemented in Danica's production process and which forms the basis for establishing ISO quality standards in Podravka's meat processing facilities.



## INVESTMENTS

In line with the restructuring process towards profitable growth, Podravka initiated an investment cycle of approximately 180 million German marks in 1997; this included the construction of three new plants and the introduction of a new integrated business information system. This investment cycle was completed during 1999: Belupo's new pharmaceutical complex in Koprivnica was completed and put on stream, test production was launched in the new Vegeta plant in Koprivnica, a new plant in Poland for the production of Vegeta, soup and dessert powdered products was constructed, and the new SAP R/3 business information system was fully implemented.

### The new Vegeta plant in Koprivnica

The construction of the Vegeta plant in Koprivnica, which represents an investment of 53 million German marks, began in August 1998. It is located in the Danica industrial zone near the town. In 1999, the plant was completed and test production initiated; it will be

operational in 2000. Not only did experts from Podravka take part in the construction of this plant but also experts from a number of leading international firms involved in the production of food technology.

The technical concept for the plants is modern - it is based on a closed, dry production process which does not have a negative effect on the environment. The entire production process will be computerised, which will ensure reliable process control, high functionality and complete assurance that the finished products will conform to the required organoleptic and hygiene standards. The plant was designed to allow for expansion for the production of Podravka soups.

### The new Vegeta, soup and dessert powdered products plant in Poland

The new plant for the production of Vegeta, soup and dessert powdered products in Poland is located in a free economic zone in the town of Kostrzyn on Poland's border with Germany. Construction of the plant started in 1999 and test production in March

2000. This investment of 32 million German marks will ensure Podravka increased profitability not only in the Polish market, which is its most important foreign market and where Vegeta is its best selling product, but also in the European Union. It will also provide Podravka with increased competitiveness, cheaper and more effective logistics and overall better business stability.



## The new Belupo pharmaceutical complex

Test production of small series of human drugs at the new Belupo plant began in March 1999, and the plant was officially opened in September of the same year. The plant represents an investment by Podravka of 72 million German marks. Belupo's new pharmaceutical complex is divided into three main parts that are interconnected. The main section consists of a modern plant for the production of solid drugs. During its planning phase, the plant was foreseen as one that would satisfy the highest international standards known to the pharmaceutical industry, the requirements of the American Food and Drug Administration, the standards of Good Manufacturing Practice and Croatia's new legislation on drugs that is in compliance with European Union regulations.

The production technology is based on well-known principles in modern pharmaceutical production. The principle of the closed system is that there is no employee contact with any substances during the material and technological processes. The step-by-step principle determines the product development procedure from the development of the formula of the new drug to pilot production and to full production.

The first step is the development of new formulas in laboratories; the second step is pilot production to test the technological processes and to carry out the first production series of the new drugs which are used for clinical testing and registration. The third and final step is the production of the finished and tested drugs for the market. There is the possibility for a quick and flexible exchange of one type of drug with another during the production process according to market and user demand. The principle of cost saving and innovation ensures a production concept for the pilot series of drugs and their test quantity. All this places the new solid drugs plant among the most modern in the Central-Eastern part of Europe

The second part of the Belupo complex is the logistics area, which consists of a computerised warehouses for drugs and warehouses for raw materials and packaging. The third part, which along with the other two guarantees technological stability and security for the next century, includes the R&D and control and analytical laboratories with pilot processes that enable the production of newly formulated drugs and the testing that precedes the registration of new drugs.

The construction of the Belupo pharmaceutical complex involved not only experts from Podravka but also 20 domestic and foreign consultants, designers and suppliers.



## The new business information system

Podravka began implementing a new business information system in 1998 in order to attain the high business standards that apply in most developed countries, to achieve the complete business integration of the entire Group and to create an information base for easier and better quality

decision-making. Podravka chose one of the leading systems - SAP R/3; it consists of a series of business applications that manage the vital operations of the company, from production and accounting to human resource management. These complex programs form a powerful network that offers vast opportunities for the collection, processing and management of business information, speeds up decision-making, reduces costs and allows management to have full control over all the processes in the entire business system.



The implementation of Podravka's new business information system was completed in 1999, placing Podravka alongside the global corporations that understand and control the power of information in the age of modern information technology. The project represents an investment of 17 million German marks. In terms of its depth and breadth, the project is the largest of its kind yet in Croatia and one of the largest in this part of Europe. It integrates the business information of 6 companies in Croatia and 13 abroad.

## ENVIRONMENTAL PROTECTION

A comprehensive environmental protection audit was carried out in 1997 in conjunction with the EKO-INA consulting house of Zagreb. This formed the basis for a 5-year environmental protection plan ending in 2002. According to this plan, 1999 saw the overhaul of certain protective equipment, the purchase of modern equipment, work on waste disposal projects, the overhaul of certain parts of the system and further implementation and expansion of the Croatian Waste Recycling (OHO) system. This system is directed at recycling packaging at points of sale and includes other Croatian companies in addition to the Podravka Group.

All waste gases emitted into the air by power plants were monitored throughout the Podravka Group. The results showed that the quality of the gases was such that there is no need for further measurements or additional protective measures.

In 1999, reconstruction work began on the waste water cleansing equipment at the yeast, Linolada and soup plants. Most of the work was completed, and completion of all

the work is expected in mid-2000. The complete equipment for the safe collection and storage of hazardous waste was purchased, and contracts were signed with companies authorised to deal with hazardous waste.

The Register of emissions (KEO) system of controlling the movement of all types of waste was set up throughout the Group. In the KEO system, all types of waste in the production process are categorised and then dealt with in conjunction with



authorised companies. In addition, preparatory work was started on setting up a recycling yard for the collection of all waste from the dislocated plants in the Group. The recycling yard is an improvement in the KEO system and will reduce waste disposal costs. In conjunction with the Vetropack Straža company, work was carried out on recycling glass waste at the Studenac plant in Lipik. Moreover, considerable work was put into implementing and expanding the OHO system for waste commercial packaging and in raising the awareness and involvement of all concerned - from producers to retailers to customers - in the process of waste disposal and recycling.

In 1999, the project was completed for cleansing oil-contaminated water in all parts of the Group that deal with transport. The cleansing project enables the separation of the oil from the water so that the resulting drainage water does not pollute the environment.

## HUMAN RESOURCES

In 1999, the human resources management function was focused on improving the selection of potential Podravka Group employees and on developing middle and lower management competences, aimed at strengthening the company's competitiveness.

In the potential candidates recruitment segment, a clear procedure was defined and the responsibilities and authorities of the Human Resources Development Sector were determined. Potential candidates are recruited from a database updated in the Human Resources Development Sector, as well as from lists provided by students' associations. Also, co-operation with certain faculties of the University of Zagreb was established in order to monitor research work and student progress with the purpose of potential employment by the Podravka Group. Among these faculties are, in particular, the Faculty of Food Processing and Biotechnology, the Faculty of Electronic Engineering and Computing, the Faculty of Organisation and Information Technology, the Faculty of Economics, the Faculty of Chemical Engineering and Technology, the Faculty of Law and the Faculty of Philosophy. This strengthens the basis for the quality selection of young, highly educated personnel.

The employment policy was directed at highly educated candidates. In 1999, fifty-four persons were hired, mostly graduate economists and food processing engineers. Special attention is paid to young experts and to involving them in the mentor system where their work is monitored and evaluated in order to direct their further development in accordance with their personal affinities and talents and with company needs.

The well-structured and systematic development of competences that are identified as priorities for the growth and development of the Podravka Group was continued. Numerous seminars were organised with the aim of developing, among others, efficient task delegation, planning and organising, decision-making and communication. It should be emphasised that in 1999 a third generation of Podravka's managers completed the seven-week general management course at the Bled business school in Slovenia.





In 1998, within the restructuring process, co-operation with consultants was started concerning the establishment of a new employee reward system. This project continued in 1999, and it roughly consists of three phases:

1. Job analysis and description
2. Job evaluation, assessment and grading
3. Formulating and implementing the employee reward policy.

In the first phase, namely job analysis and description, the jobs or functions within the Podravka Group were evaluated in detail. Then, typical jobs with corresponding competences and responsibilities were defined, which enabled a precise categorisation of all posts. Using this analysis, Podravka's expert team, in co-operation with the consultants, evaluated and graded each job according to uniform criteria. The first two phases - analysis and evaluation - formed the basis for a modern human resources management system with the emphasis on motivation and reward in accordance with the responsibilities, performance and specific demands of the post.

A human resources management module was implemented in the SAP R/3 information system, which will provide a modern way of monitoring employee performance and career development, maintaining human resources records and developing the reward system. In addition, employee data are entered into the new human resources management module, thus creating a base for better career planning and manager succession.





## **REPORT BY THE PODRAVKA d.d. SUPERVISORY BOARD**

# REPORT BY THE PODRAVKA d.d. SUPERVISORY BOARD ON THE SUPERVISION OF THE COMPANY'S BUSINESS OPERATIONS

This report covers the period from 1 January 1999 to 31 December 1999.

In accordance with Croatian legislation and the PODRAVKA d.d. Articles of Association, the PODRAVKA d.d. Supervisory Board, in addition to supervising PODRAVKA d.d. business operations, held eight sessions in the course of 1999.

During the period covered by the report, from 1 January 1999 to 9 February 1999, the PODRAVKA d.d. Supervisory Board (hereinafter: Supervisory Board), comprised the following members: Božo Prka, Slavko Antolić, Juliet Sjöborg, Lidiya Zorić, Sonja Klingor, Darko Ostoja, Franjo Cirkvenec, Zvonimir Majdančić and Željko Đurđina.

From 9 February 1999 to 15 December 1999, the Supervisory Board comprised the following members: Božo Prka, Slavko Antolić, Juliet Sjöborg, Tin Dolički, Sonja Klingor, Darko Ostoja, Franjo Cirkvenec, Zvonimir Majdančić and Željko Đurđina.

From 15 December 1999 to 31 December 1999, the Supervisory Board comprised the following members: Božo Prka, Slavko Antolić, Juliet Sjöborg, Rudolf Vouk, Sonja Klingor, Darko Ostoja, Franjo Cirkvenec, Zvonimir Majdančić and Željko Đurđina.

According to its review of PODRAVKA d.d. business operations, the Supervisory Board determined that PODRAVKA d.d. operated in accordance with Croatian legislation and PODRAVKA d.d. rules of operation in the course of 1999.

The Supervisory Board determined that the PODRAVKA d.d. financial statements were drawn up in accordance with the company's accounting records and fairly and accurately reflect the state of PODRAVKA d.d. business affairs.

On 28 April 2000, the Supervisory Board approved the decision made by the PODRAVKA d.d. Management Board to accept the company's basic financial reports for 1999. On 15 May 2000, the Supervisory Board approved the proposal of the Management Board relating to methods of covering losses made in 1999, and submitted its decision to the PODRAVKA d.d. Annual General Meeting for approval.

Koprivnica, 9 May 2000



President of the Supervisory Board:  
Božo Prka

## Supervisory Board

**Božo Prka**, President of the Supervisory Board. Born in 1958. He graduated from the Faculty of Foreign Trade, University of Zagreb, and received his M.Sc degree from the Faculty of Economics, University of Zagreb. He was Sales Director and then Finance Director at Diona, Zagreb, finance advisor at the consultancy firm Progres, and then tax and accountancy advisor at TEB, Zagreb. In 1992, he was appointed Assistant to the Finance Minister, and, in 1993, Deputy Finance Minister. From 1994 to 1997, he was Finance Minister in the Croatian Government. In 1998, he was appointed President of the Privredna Banka Zagreb d.d. Management Board. In 1996, he was elected Minister of the Year by the Central European magazine. He has participated in a number of conferences and seminars organised by the European Council, EFFAS, Euromoney and Wall Street Journal.

**Slavko Antolić**, Vice-President of the Supervisory Board. Born in 1953. He graduated from the Faculty of Medicine, University of Zagreb, and specialised in epidemiology. He completed post-graduate studies in epidemiology and public health. He attended a number of training courses and seminars on information technology, management, finance, accountancy and foreign languages. From 1978 to 1991, he worked in health care institutions as a primary-care medical doctor and a specialist in epidemiology (he was in managerial positions for four years). In 1991, he moved to the Health Care Department of the Ministry of Defence, where he was a senior advisor for Croatian Army health-care issues; he also actively participated in the Croatian War for Independence. From 1993 to 1995, he worked in a privately-owned company where he was involved in the marketing and sale of medical equipment, materials and medicines. Since 1995, he has worked in Belupo d.o.o., first as Deputy Director of the Sales Service - Marketing Division, then as Marketing Director, and currently as Assistant Director.

**Franjo Cirkvenec**, Member of the Supervisory Board. Born in 1953. He graduated from the Faculty of Law, University of Zagreb. In 1978, he started working in the Koprivnica Municipality as a legal affairs officer. From 1981 to 1991, he was head of the Property and Legal Affairs Department in the Koprivnica Municipalities Assembly. After that, he moved to the Executive Council of the Koprivnica Municipality, where he was Secretary of the Executive Council and Co-ordinator of Administrative Bodies of Koprivnica Municipality. In 1993, he became a senior advisor in the Director's Office at Central Office of the Croatian Pension and Invalidity Insurance Fund in Zagreb, and since 1994 he has been Director of the Regional Office of the Croatian Pension and Invalidity Insurance Fund in Koprivnica. Since 1997, he has been a voluntary President of the Koprivnica-Križevci County Assembly.

**Željko Đurđina**, Member of the Supervisory Board. Born in 1948. He graduated from the Department of Chemistry and Technology at the Faculty of Chemical Engineering, University of Zagreb, and received his M.Sc. from the same faculty in 1981. On completing his studies, he started working at Podravka, where he has worked ever since. In Podravka, he worked on the production of soups and Vegeta. He was Head of the Meat Products Laboratory and a soups and spices production technologist. He was appointed Technical Director and then General Manager at the Soup Factory. He became Foods Division Manager and then a Member of the Podravka Management Board. He was Head of the Vegeta Project Team and General Manager of the Vegeta plant during its construction.

**Sonja Klingor**, Member of the Supervisory Board. Born in 1951. She graduated from the Medical College, Zagreb and worked in the Merkur and Jordanovac hospitals and in the Institute for Public Health of the City of Zagreb. In June 1991, she joined the Medical Corps Headquarters of the

Republic of Croatia. In 1992, she worked in the Office for Refugees and Displaced Persons of the Republic of Croatia, first as a co-ordinator of the EU assistance programme, and then as Head of the Department for Humanitarian Assistance and Transport. In 1996, she was appointed Head of the Regional Office for Refugees and Displaced Persons, Zagreb, and worked there until 2000. She received Croatian awards for her humanitarian work and, in 1993, was the first Croat awarded the EU medal for humanity.

**Zvonimir Majdančić**, Member of the Supervisory Board. Born in 1943 in Vinkovci. He graduated from the Faculty of Economics in 1965, since when he has been working for Podravka. Between 1965 and 1990, he held the posts of Podravka Management Board Vice-President, Assistant to the Podravka Managing Director, Director of Podravka's Trade Division, Director of Podravka Group marketing, Director of the Group's General Administration, Director of General Co-ordination, Director of Economics and Planning, where he was responsible for economic analysis, planning, organisation, accounting and IT, Director of the Economics Centre, Head of the Planning and Analysis Office, Head of Organisation and Allocation, Organisation and Allocation Officer, and Planning and Analysis Officer. From 7 October 1990 to 25 September 1997, he was President of the Business Council, Managing Director and President of the Podravka Management Board. He was at the helm of Podravka during the Croatian War for Independence, when the role of Podravka was essential in providing humanitarian aid and in providing food for Croatian soldiers. During his term of office, Podravka became a joint stock company and started the process of restructuring. He was decorated by the Croatian President with the Order of Danica of Croatia with the portrait of Blaž Lorković and received the honorary commission of Colonel in the Croatian Army and a commemorative medal of the War for Independence. He received the award of the Croatian Council of the European Movement, together with numerous other awards. He was also President of the Supervisory Board of Bilokalnik d.d. Koprivnica and Podravska banka d.d. Koprivnica, and a Member of the Supervisory Board of Croatia osiguranje d.d. Zagreb and the football club N.K. Croatia d.d. Zagreb. He is currently a Member of the Supervisory Board of Podravke d.d. Koprivnica and Advisor to the President of the Management Board of Podravka d.d. Koprivnica.

**Darko Ostoja**, Member of the Supervisory Board. Born in 1953. He graduated from the Faculty of Mechanical Engineering, University of Zagreb. In 1991, he completed a course in entrepreneurship at Babson College, USA, and in 1994 received the broker's license in Zagreb. Since the beginning of his professional career, he has been active in private enterprise. From 1980 to 1990, he was owner and director of Meting of Čakovec, a company with 120 employees involved in the production of spare parts and the overhaul and reconstruction of industrial production plants. From 1990 to 1995, he was co-owner and director of Consult Invest d.o.o. of Varaždin, and since 1995 he has been co-owner and director of I.C.F. d.o.o. of Zagreb, a company involved in securities trading. He has led a number of important business projects, among them numerous acquisitions, which made it possible for foreign investments and expert knowledge to enter the country. He has engineered and led the largest foreign acquisition executed from Croatia - the takeover of Elan of Slovenia. He is a member of the Dom Fund Management Board, Director of Epic - Invest d.o.o. and Director of I.C.F. d.o.o.

**Juliet Sjöborg**, Member of the Supervisory Board. Born in 1963. She graduated in electrical engineering at the School of Engineering, University of Pennsylvania. From 1986 to 1988, she worked as a systems engineer with Questech Inc., USA. She received a Master's degree in economics from the College of Law and Economics, Université de Nice, and an MBA from Wharton School, University of Pennsylvania. In 1991, she was advisor to the Ministry of Privatisation of the Polish Government and participated in the pre-privatisation evaluations of the Polish

pharmaceutical industry. In 1992, she was employed by the European Bank for Reconstruction and Development (EBRD) in London. She was engaged in transactions in both the public and private sector in Romania and Moldavia, and in the electrical energy sector in Croatia, Macedonia and Georgia. From 1996 to December 1998, she headed the EBRD Office in Zagreb, where she led the EBRD projects in Pliva, HEP and Podravka and was involved in EBRD projects in both the private and public sector with a total portfolio value exceeding 500 million US dollars. At the end of 1998, she transferred to the EBRD London Office, where she is Senior Banker in the Agribusiness Team.

**Lidija Zorić\***, Member of the Supervisory Board. Born in 1954. She received a BA and MA in Economic Analysis from the Faculty of Economics, University of Zagreb. She also holds a degree from Faculté de Sciences Economiques et de Gestion, Dijon, France. Until 1992, she worked at the Economic Institute in Zagreb in the field of monetary policy, finance, and macroeconomic policy. She was subsequently appointed advisor to the President of the Republic of Croatia. She worked at the Osiguranju Helios d.d., insurance company, where she was Member of the Management Board and Director of Finance, and later as advisor to the Management Board of Trgovačka banka d.d. of Zagreb. From 1 January 1998 to mid-December 1999, she was economic affairs advisor to the President of the Republic.

\* Following the Act on the Duties and Rights of Government Administration Officials and the Companies Act, the Croatian Privatisation Fund made the decision on 19 January 1999 to appoint Mr Tin Dolički to the position of Member of the Supervisory Board of Podravka d.d. in place of Ms Lidija Zorić.

**Tin Dolički\***, Member of the Supervisory Board. He was born in 1960 in Pula, Croatia, where he completed primary school. He completed secondary school in Zagreb and went on to graduate from the Faculty of Law, University of Zagreb, in 1985. From 1985 to 1990, he was legal advisor to Hidroelektra and Končar, companies involved in building and equipping capital projects at home and abroad. Since 1990, he has run his own lawyer's office, specialising in commercial law. Since summer 1997, he has been in partnership with Mirko Bogdanović in the Law Offices of Bogdanović & Dolički, where he focuses on company law and international commercial law. He speaks English and Italian. He has published ten scientific papers in domestic journals and has published two books.

\* Tin Dolički held the post of Member of the Supervisory Board until 31 December 1999, when Rudolf Vouk was appointed to his position.

**Rudolf Vouk**, Member of the Supervisory Board. He was born in 1946 in Križevci, where he completed primary and secondary school. He graduated from the Foreign Trade College in Zagreb. And received Master's and Doctoral degree from the Faculty of Economics, University of Zagreb. He also completed a General Management Programme at The William Davidson Institute, University of Michigan Business School. He speaks English and German. He worked for several years in managerial positions in manufacturing companies. He was then employed at the Foreign Trade Faculty and Economics Faculty, University of Zagreb. Since 1994 he has worked part-time at the Faculty of Electrical Engineering and Computer Science, University of Zagreb. He has published a number of works in Croatia and abroad. From 1991 to 1993, he was Vice-Dean of the Faculty of Economics, University of Zagreb. From 1994 to 1998, he was Assistant Minister of Education and Sport and then Deputy Minister. He was decorated by the Croatian President with the Order of Danica of Croatia with the portrait of Antun Radić, a commemorative medal of the War for Independence and an award for his contribution to creating the Croatian state.



## Management Board

**Ante Babić** President of the Management Board. Born in 1938. He graduated from the Faculty of Mechanical Engineering, University of Zagreb, in 1966. He attended a one-year advanced training program at Facit, a Swedish company. In 1959, he became manager of the Equipment and Buildings Maintenance Department in Podravka. In 1966, he became manager of Podravka's entire production, and, in 1970, Director of Research and Development, co-ordinating large development and investment projects (planning and construction of the pharmaceutical plant, meat-production complex, the mineral water and beverages bottling plant, and the complete overhaul of the soup and Vegeta plant, the baby food plant, etc.). In 1984, he set up and became editor-in-chief of Podravka's trade journal Podravka. In 1989, he became Podravka Vice-President for Research and Development, responsible for the development and co-ordination of medium- and long-term development plans. He has taught at numerous training seminars for Podravka employees. Since May 1996, he has led the programme for restructuring Podravka for profitable growth. In 1997, he was appointed President of the Management Board.

**Vlado Marić**, Vice-President of the Management Board. Born in 1953. He graduated from the faculty of Economics, University of Zagreb, in 1980, specialising in Foreign Trade. He studied Regional Development at the Zagreb Business School. He joined Podravka in 1980 and has held numerous management posts in economics, finance, accounting, planning, commerce and organisation in the food and pharmaceutical industries. In 1990, he became President of the Koprivnica Municipal Committee for Economy and Social Planning. In 1993, he returned to Podravka as Assistant Director for Economics, Finance and Commerce in Belupo. In 1996, he became Vice- Director for Economics, Finance, Organisation and Human Resources in Belupo. In 1997, he became Management Board Member for Social Financing, International Finance, Finance Control, Accounting and IT Systems, and in 1998, he became Vice-President of the Management Board.

**Stanislav Biondić**, Member of the Management Board. Born in 1955. He graduated from the faculty of Economics, University of Zagreb, in 1981. He joined Podravka in 1982, working in the fields of planning and organisation and distribution analysis. In 1984, he became head of the Distribution Department, and six years later he was appointed Director of the Organisation and Distribution Division. In May 1996, he became co-ordinator of the team for restructuring Podravka for profitable growth and was particularly involved in divesting subsidiaries which did not fit into Podravka's strategic plan. In 1997, he became head of the Human Resources Management Team. From December 1995 to September 1997, he was a Member of Podravka's Supervisory Board as representative of the Small Shareholders' Association, and in September 1997, he was appointed Podravka Management Board Member for Restructuring and Associated Companies. Since March 1999, as Management Board Member, he has been responsible for Belupo, also holding the post of Managing Director at Belupo.

**Nikola Felak\***, Member of the Management Board and Director of Pharmaceuticals. Born in 1941. He graduated in Biotechnology at the Faculty of Technology, University of Zagreb. He started his career in Podravka in 1968 as Director of Development. From 1970 to 1971, he was Managing Director of Panonska pivovara (brewery) in Koprivnica. From 1971 to 1978, he was Technical Director of Belupo-Podravka, after which he became Managing Director of the company. In 1982, he was appointed co-ordinator of Podravka's development plans. From 1986 to 1992 he was Managing Director of Medikem of Virje. In 1992, he continued his career in the Podravka Group as Managing Director of Belupo d.o.o. Koprivnica. In 1997, he became Podravka Management Board Member



responsible for Belupo d.o.o.. He received an award from the Croatian Chamber of Commerce in Bjelovar, and was decorated for special services to commerce. He is a member of the Croatian Pharmaceutical Association.

**Zvonko Pavlek\***, Member of the Management Board and Managing Director of Branded Food Products. Born in 1941. He graduated from the Faculty of Economy, University of Zagreb, where he obtained an M.Sc. in Marketing. He attended seminars and training courses in business management at Nestle, Vevey. He has always worked at Podravka, acting as Member of the Management Board for Marketing for most of his career. Since arriving at the company, he has been involved in the introduction of marketing concepts, systems and organisation in Croatia and abroad, particularly in the field of product innovation, communication, etc. He has published about twenty technical and research papers on market research, communication, marketing programming and product management, most of which have been presented at Croatian and foreign conferences and universities. He was re-elected Management Board Member for Branded Food Products in September 1997.

**Branka Perković**, Member of the Management Board and Director of Human Resources and Legal Affairs. Born in 1956. She graduated from the Faculty of Law, University of Zagreb, in 1980. In 1980, she was employed at Podravka in the field of labour, housing, property and commercial law. In 1990, she became head of the property and commercial legal service. From 1994 to 1996, she was adviser in the Managing Director's Office. In May 1996, she became a member of the Team for Restructuring, working on restructuring Podravka for profitable growth in co-operation with the A.D. Little consulting company. In January 1997, she was appointed secretary of the Podravka Management Board. In September 1997, she was appointed Podravka Management Board Member for Human Resources and Legal Affairs. She was awarded the SEFIC certificate by the London Chamber of Commerce and Industry. She was particularly involved in organisational and status changes, as well as property acquisition and sale. She has passed the judge examination.

**Jürg Schütz**, Member of the Management Board and Director of Finance. Born in 1953. He graduated in economics at the Business School of Economics and Public Administration in Zurich. His field of interest and speciality is corporate finance control and management as well as the preparation, development and implementation of management information systems. His work experience includes Züricher Kantonalbank where he was in charge of retail banking, FNCB - First National City Bank (today's City Bank), Habasit AG of Switzerland, where he was Director of Finance Control for Habasit Holding Ltd., the Swiss firm Vetropack Ltd., where he was first Vice-President and Managing Director of Finance Control. In 1996, when Vetropack acquired the Croatian company Straža, he was responsible integrating the new company into Vetropack Holding. He was appointed Management Board Member for Finance in 1998.

\*On 26 March 1999, the Supervisory Board of Podravka d.o.o. decided to recall two members of the Management Board, Nikola Felak and Zvonko Pavlek, and to decrease the number of Management Board Members from seven to five. Since then, the Management Board of Podravka d.d. has consisted of: Ante Babić, President of the Management Board and Director of Podravka Branded Foods Division, Vlado Marić, Vice-President of the Management Board and Director of Restructuring, Stanislav Biondić, Management Board Member for Belupo pharmaceuticals, Branka Perković, Management Board Member and Director of Human Resources and Legal Affairs, and Jürg Schütz, Management Board Member and Director of Finance.

## Podravka d.d. Management Board appointed on 14 March 2000\*

**Darko Marinac**, President of the Management Board. He was born in Zagreb in 1950. In 1973, he graduated from the Faculty of Chemical Engineering, University of Zagreb, and two years later completed his interdisciplinary postgraduate studies at the same faculty. In 1986, he completed managerial studies at the Croatian Chamber of Commerce and a program for foreign trade at the Faculty of Economics in Zagreb. In 1987, he completed a business programme in the “CDG” business school of Cologne and attended a number of European seminars in the areas of management, marketing, sales, research and development, finance and pharmaceuticals. In 1975, he started working in Pliva as a production technologist. He was appointed Project Manager and then General Manager of the Penicillin Factory. He became Director of Pliva’s Animal Health and Agrochemicals Division and, from 1990 to 1991, Research and Development Manager at the Foods and Cosmetics divisions. He established and managed Pliva’s companies in Poland, the Czech Republic and Slovakia. From 1996 to 1999 he was the first Vice-President of the Pliva Market Development Board. After that, he was Integration Director of Pliva-Krakow and senior advisor to the Pliva Management Board. He speaks seven languages, has received several awards for his achievements in management and entrepreneurship, and was decorated by the President of the Republic of Croatia for his contribution to the development of the Croatian economy.

**Željko Đurđina**, Deputy President of the Management Board, responsible for restructuring. He was born in 1948. He graduated from the Department for Chemistry and Technology at the Faculty of Chemical Engineering, University of Zagreb, and received his M.Sc. from the same faculty in 1981. On completing his studies, he started working at Podravka, where he has worked ever since. In Podravka, he worked on the production of soups and Vegeta. He was Head of the Meat Products Laboratory and a soups and spices production technologist. He was appointed Technical Manager and then General Manager at the Soup Factory. He became Foods Division Director and then a Member of the Podravka Management Board. He was President of the Management Board of the Podravka Shareholders Association until 4 May 2000. From 1997 until he was appointed Vice-President of the Management Board, he was a Member of the Podravka Supervisory Board. He carried out the construction of the new Vegeta Factory in Koprivnica. He speaks fluent German and also English.

**Nevenka Cerovsky**, Member of the Management Board for Finance Development. She was born in Zagreb, in 1958. In 1982, she graduated from the Department for Foreign Trade at the Faculty of Economics, University of Zagreb. In the same year she started working at Zagrebačka Pekara (Zagreb Bakery) Accountancy Department. In 1984, she moved to Pliva, where she was Foreign Currency Officer in the Finance Division for four years, and then worked on special Pliva projects for three years. She established and managed the Pliva Shareholders Office, and participated in the company’s privatisation. From 1992 to 1993, she was Finance Development Director at Pliva and then Finance Director. In 1996, she moved to the post of Director of the Cosmetics and Hygiene Program and was responsible for the restructuring of this Division and the establishment of a separate company Neva d.o.o. She speaks fluent English and German, and is able to communicate in French and Russian. In 1996, she was awarded for her achievements in the field of economics.

**Davor Cimaš**, Member of the Management Board for Foreign Markets Development. He was born in Zagreb in 1959. In 1977, after completing grammar school in Koprivnica, he entered the Faculty of Economics, University of Zagreb, graduating from the Marketing Department in 1982. In 1982, he started working at Podravka as a sales officer. Two years later he moved to the Marketing Division,

where he was employed as Head of Products until 1991, and then as Exports Manager for Slovenia. He was a member of the Podravka Restructuring Team, responsible for sales and marketing. From 1997 to 1999 he was Assistant Sales Director and then Marketing Director. In 1998, he completed the managerial programme at the Center business school in Slovenia. He speaks fluent English. He was in the Croatian Homeland War from September 1991 to 1992. He was a member of the Koprivnica-Križevci County Assembly (1993 - 1994), the County Council (1994 - 1997), and the Koprivnica City Council (1997 - 1999).

**Damir Polančec**, Member of the Management Board, responsible for the development of the Croatian market and the markets of southeastern Europe. He was born in 1967 in Đelekovac near Koprivnica. After completing grammar school in Koprivnica in 1987, he attended the Faculty of Agriculture, University of Zagreb, graduating from the Agroecconomics Department in 1992. In the same year, after a short period with Dukat in Zagreb, he started working in Podravka as a purchase officer. Two years later, he became a sales officer and, after three years in that post, a senior purchase officer. In 1997, he became a member of the Podravka Restructuring Team. In the same year, he was appointed Purchase Manager and carried out the restructuring process in the area of purchase. He completed several training programmes for managers, including that in the Center business school in Slovenia. He speaks fluent English.

\* On 14 March 2000, the Podravka d.d. Supervisory Board, chaired by Mr Božo Prka, President of the Supervisory Board, held its 11th session at which the resignation of Ante Babić, President of the Podravka d.d. Management Board was accepted, the members of the Management Board were recalled, and new members were appointed. The following members of the Supervisory Board attended the session: Božo Prka, President of the Podravka d.d. Supervisory Board, Slavko Antolić Deputy President of the Podravka d.d. Supervisory Board, Željko Đurđina and Zvonimir Majdančić, representatives of small shareholders, Sonja Klingor and Franjo Cirkvenec, representatives of MIORH (Pension and Invalidity Insurance Fund of the Republic of Croatia), Juliet Sjöborg, a representative of EBRD (European Bank for Restructuring and Development), Ivana Vujić, a HFP (Croatian Privatisation Fund) representative, and Darko Ostoja, a PIF (Privatisation Investment Funds) representative.





## REPORT OF INDEPENDENT AUDITORS


# REPORT OF INDEPENDENT AUDITORS

The Shareholders  
Podravka d.d.

We have audited the financial statements of Podravka d.d. at 31 December 1999 and at 31 December 1998, set out on pages 2 to 37. We have likewise audited the half-year consolidated financial statements at 30 June 1998 and 30 June 1999. These financial statements 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly, in all material respects, the financial position of the company as at 31 December 1999 and at 31 December 1998, the results of its operations and changes in its cash flows for the period then ended in accordance with International Accounting Standards. The asset valuation as of 31.12.1999 has been adjusted to conform with the principal of the true and fair view; this adjustment has reduced the profit of 1999.

 *G. Ralte* *ppa Bejovic*

ERNST & YOUNG  
Wirtschaftsprüfungs-und  
SteuerberatungsgmbH



HODICON d.o.o.  
Revizorska tvrtka  
Koprivnica, Hrvatska

Vienna, March 8, 2000

# CONSOLIDATED BALANCE SHEET

at 31 December 1999  
(expressed in thousands of HRK)

## ASSETS

	Notes	31.12.1999	31.12.1998
<b>Long-term assets</b>			
Property, plant and equipment	3	1.867,998	1.650,661
Intangible assets	4	80,136	31,118
Other long-term assets	5	<b>114,704</b>	<b>137,486</b>
		2.062,838	1.819,265
<b>Current assets</b>			
Inventories	6	434,406	413,343
Trade accounts receivable	7	706,680	594,304
Other receivables and prepaid expenses	8	127,430	99,839
Cash	9	<b>35,776</b>	<b>108,411</b>
		1.304,292	1.215,897
		<b>3.367,130</b>	<b>3.035,162</b>

## EQUITY AND LIABILITIES

	Notes	31.12.1999	31.12.1998
<b>Equity</b>			
Share capital	10	1.812,809	1.733,909
Share premium account	10	12,001	12,001
Revaluation reserve		2,108	1,498
Legal and other reserves	11	119,034	89,186
Retained deficit - brought forward	12	-44,413	-64,563
Profit for the period		<b>20,953</b>	<b>68,074</b>
Total shareholders' equity		1.922,492	1.840,105
Minority interests	13	347	315
Total shareholders' equity and minority interests		1.922,839	1.840,420
<b>Long-term debt</b>	14	479,886	483,711
<b>Restructuring provision</b>	15	64,000	0
<b>Non-current liabilities</b>	16	5,622	3,378
<b>Current liabilities</b>			
Trade accounts payable	17	359,733	385,460
Other payables and accrued liabilities	18	148,850	96,569
Current portion of long-term debt		216,185	146,999
Short-term debt	19	<b>170,015</b>	<b>78,625</b>
		894,783	707,653
		<b>3.367,130</b>	<b>3.035,162</b>
<b>Off-balance sheet liabilities</b>	20	193,113	244,234

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999  
(expressed in thousands of HRK)

	Notes	31.12.1999	31.12.1998
Sales	21.1./21.2.	2.420.942	2.482.330
Changes in stocks of finished and semi-finished products		16,637	-15,040
Other operating income	22	<b>57,048</b>	<b>68,246</b>
		2.494,627	2.535,536
Cost of materials and bought-in services		-1.423,402	-1.509,249
Personnel expenses			
a) wages and salaries		-281,090	-255,085
b) expenses for statutory social payments and associated levies and mandatory contributions		<b>-180,761</b>	<b>-189,872</b>
		-461,851	-444,957
Depreciation of tangible and intangible assets	23	-128,072	-120,685
Other operating expenses	24	<b>-298,716</b>	<b>-332,387</b>
Operating profit		<b>182,586</b>	<b>128,258</b>
Interest income, earnings from securities and similar income		63,203	44,031
Expenses in respect of shareholdings		0	-2,901
Interest and similar expenses	25	<b>-132,699</b>	<b>-112,247</b>
		-69,496	-71,117
<b>Profit from ordinary activities before taxes</b>		<b>113,090</b>	<b>57,141</b>
Taxes on income		-9,078	-15,568
Deferred taxes		0	27,450
<b>Net profit for the period from ordinary activities</b>		<b>104,012</b>	<b>69,023</b>
Extraordinary items (net of tax)	26	-83,030	0
<b>Net profit for the period before minority interests</b>		<b>20,982</b>	<b>69,023</b>
Minority interest		-29	-949
<b>Net profit after minority interests</b>		<b>20,953</b>	<b>68,074</b>



# CONSOLIDATED STATEMENT OF CASH FLOW

for the period from 1 January to 31 December 1999.  
(expressed in thousands of HRK)

	1-12/1999	1-12/1998
	Total	Total
<b>Cash flows from operating activities</b>		
Net profit before minority interests	20,982	68,074
Depreciation	128,072	120,685
Income applicable to minority interests	-29	949
Foreign exchange differences - long-term assets	0	2,574
Decrease (increase) in current assets:		
Inventories	-21,063	14,592
Trade accounts receivable	-112,376	-134,706
Amounts receivable from related companies	0	1,812
Other receivables and prepaid expenses	-27,591	-61,745
	-161,030	-180,047
Increase (decrease) in current liabilities:		
Trade accounts payable	-25,727	94,330
Amounts payable to related companies	0	-3,676
Other payables and accrued liabilities	52,281	2,298
Restructuring provision	64,000	0
	90,554	92,952
Increase (decrease) in non-current liabilities	2,244	-1,093
<b>Cash provided by (used in) operating activities</b>	<b>80,793</b>	<b>104,094</b>
<b>Cash flows from financing activities</b>		
Increase / Decrease in long-term debt	-3,825	13,926
Increase / Decrease in short-term debt, net	160,576	118,138
<b>Cash provided by (used in) financing activities</b>	<b>156,751</b>	<b>132,064</b>
<b>Cash flows from investing activities</b>		
Purchase/Disposal of property, plant and equipment and intangible assets	-394,427	-281,426
Investm. in associates, other investm. and other long term loans	22,782	8,845
Minority interest in subsidiary companies (reserve movements)	29	0
Movement in other reserves	-237	390
Increase of equity	78,900	111,900
Retained deficit - foreign exchange differences and other movements	0	662
<b>Cash (used in) provided by investing activities</b>	<b>-292,953</b>	<b>-159,629</b>
<b>Dividends paid</b>	<b>-17,226</b>	<b>0</b>
<b>Increase/Decrease in cash</b>	<b>-55,409</b>	<b>76,529</b>
Cash at beginning of year	108,411	31,882
<b>Cash at year-end</b>	<b>35,776</b>	<b>108,411</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. General information on the company

The parent company Podravka prehrambena industrija d.d., with its registered office in Koprivnica, Ulica Ante Starcevica 32, was originally registered in 1947. Following privatisation, the company was entered into the Commercial Court Register at Bjelovar on 1 October 1993. The company prepares annual financial statements to 31 December and half year financial statements 30 June.

The companies within the Podravka group are engaged in the following activities:

- The manufacture of food products and non-alcoholic beverages (including mineral water).
- The marketing of wholesale and retail products.
- The export and import of food and non-food products.
- The operation of restaurants and hotels.
- The manufacture and distribution of medicines, pharmaceutical products, cleansing agents, cosmetic preparations, auxiliary medical devices and other chemical products.

The company's financial statements are expressed in thousands of Croatian Kuna.

## 2. Summary of significant accounting policies

### a) General

The financial statements of the group have been prepared in accordance with the accounting and reporting requirements of the Standards issued by the International Accounting Standards Committee. The financial statements for the period ended 31 December 1999 have been prepared using the historical cost convention method except for certain assets (e.g. property, plant and equipment) which have been included in the financial statements at revalued amounts. The Croatian companies within the group have prepared their local financial statements in accordance with the Croatian Accounting Regulations, which are based on International Accounting Standards. The financial statements have been prepared in accordance with both Croatian accounting Regulations and International Accounting Standards.

The principal accounting policies adopted for the preparation of the consolidated financial statements are set out in the following paragraphs.

### b) Associates

At 31 December 1999, Podravka prehrambena industrija d.d. held an investment in the following associated companies:

Company	% held
Panonska pivovara d.o.o., Koprivnica	40
Elite Hrvatska d.o.o., Koprivnica	20

These investments are stated in the financial statements using the equity method.

On 16 April 1999 Podravka d.d. signed a joint venture agreement with Elite International B.V., Netherlands in order to be engaged in the business of production, marketing, sale and distribution of coffee products. The Business shall be operated in the geographical boundaries of Croatia and, subject to the approval of the company's Supervisory Board, may expand to other countries in former Yugoslavia, especially Bosnia Herzegovina, Slovenia and the Republic of Macedonia.

#### c) Borrowing costs

Borrowing costs are expensed to the profit and loss account as incurred.

Borrowing costs that are directly related to the acquisition or production of fixed assets are capitalised.

#### d) Basis of consolidation

The consolidated financial statements at 31 December 1999 comprise the financial statements of the parent company, Podravka prehrambena industrija d.d., and its subsidiary companies as follows:

Croatian companies	% held	Date founded
Belupo d.o.o., Koprivnica	100	24.12.1991
Poljoservis d.o.o., Koprivnica	100 (in liquidation)	30.12.1994
Koprivnicka Tiskarnica d.o.o., Koprivnica	100	30.12.1994
Danica d.o.o., Koprivnica	100	30.12.1994
Poni Trgovina d.o.o., Koprivnica	100	18.09.1995
Podravka - Inzenjering d.o.o., Koprivnica	100	06.05.1996
Hotel "Podravina" d.o.o., Koprivnica	100	13.09.1994
<b>Slovene companies</b>		
Belupo d.o.o., Ljubljana	100 (indirect)	20.10.1994
Sana d.o.o., Hoce	100	31.10.1991
Podravka d.o.o.; Ljubljana	100	31.10.1991
<b>Other foreign entities</b>		
Podravka d.o.o., Siroki Brijeg, BiH	100 (direct/indirect)	28.12.1992
Podravka d.o.o., Skopje, Macedonia	100	25.11.1992
Konar GmbH, Geretsried, Germany	100	23.12.1991
Podravka-International kft, Budapest, Hungary	100	12.07.1993
Podravka-International kft, Mohacs, Hungary	100	12.11.1995
Podravka-International e.o.o.d., Sofia, Bulgaria	100 (in liquidation)	12.07.1993
Podravka-International Pty Ltd, Sydney, Australia	100	12.07.1993
Podravka-International d.o.o., Bratislava, Slovakia	50	20.09.1993
Podravka-International spol s.r.o, Prague, Czech Rep.	50 (indirect)	09.05.1995
Podravka-International d.o.o., Warsaw, Poland	100	15.11.1993
Podravka Polska Sp.z.o.o., Kostrzyn, Poland	100	10.07.1998

The liquidation of Poljoservis d.o.o. was completed in January 2000.

Podravka d.o.o. Sarajevo was liquidated by decision of the District Court in Sarajevo on 24 September 1999.

On 10 July 1998 the new company "Podravka Polska Sp.z.o.o." was founded, which is engaged in the production of Vegeta for the Polish market. The construction of the manufacturing plant in Kostrzyn was started in the first week of June in 1999. The test production of Vegeta commenced on 21 February 2000 and will continue until the end of April 2000. Thereafter, the factory will be able to supply the Polish market.

#### **e) Cash and cash equivalents**

Cash comprises cash on hand and deposits as well as current balances with banks and similar institutions.

#### **f) Foreign currency translation**

Gains and losses from foreign currency translation are included in the profit and loss account.

Assets and liabilities of group companies included in the consolidation, which report in currencies other than the Croatian Kuna, are translated to Croatian Kuna using year end rates of exchange. The profit and loss accounts of such companies are translated to Croatian Kuna using the year end rates of exchange. The effect of a retranslation using 1999 average exchange rates would not result in any significant adjustment.

#### **g) Property, plant and equipment**

Property, plant and equipment are carried in the balance sheet at revalued amounts. The original valuation was performed (in accordance with Croatian Privatisation Regulations) internally by expert company staff in 1991 and subsequently amended (in accordance with a directive issued by the Croatian Privatisation Fund before granting final approval) and recorded in 1993, when the share capital of Podravka d.d. was determined. The revaluation adjusted to current market conditions was booked as of 31 December 1999. Also see Note 3

Depreciation is taken on a straight-line basis at prescribed rates designed to write off the value of property, plant and equipment over their estimated useful lives. The annual depreciation rates used fall within the following ranges:

<b>Depreciation rates:</b>	<b>%</b>
• Buildings	2.00 - 20.00
• Plant and equipment	3.03 - 25.00
• Other	2.00

Land is carried at revalued amounts and is not depreciated. Assets are not depreciated until they are brought into use.

#### **h) Investments**

Investments disclosed in the financial statements under other long-term assets are valued at cost. In the event of significant and other than temporary declines in value, the carrying value of the investments is written down to the lower fair value.

## **i) Inventories**

Inventories are stated at the lower of cost or net realisable value. Cost is determined by the weighted average method. The cost of finished goods and work in progress comprises raw materials (per 31.12.1999 valued for the first time at actual cost instead of standard cost), other direct costs and related production overheads.

With the start up of SAP R/3 in June 1999, the following changes to the accounting policy were introduced:

- more structured and defined costs are included in the inventory value to account for product specific costs,
- more detailed analysis of production cost types by profit centres at factory level (e.g. soups and Vegeta, baby food, Kalnik),
- the introduction of new cost centres,
- more detailed tracking of production cost through the introduction of work orders.

The company has started using a new IT system integrating business processes and Financial Accounting, implementation of which however has not been completely finalized. As the new cost accounting system is not yet implemented, exact cost breakdowns are still impossible. Adjustments to inventory figures may thus be necessary after finalisation of the implementation.

An adjustment was made on consolidation to eliminate the unrealised profit element in stocks purchased from group companies and held at 31 December 1999. Owing to the absence of comprehensive cost accounting systems at the group's foreign subsidiaries the unrealised profit element present in such stocks was calculated at 31 December 1999, as in the prior years, on an estimated basis.

Furthermore, intercompany transactions were eliminated from the consolidated profit and loss account, based on the balances reported by the selling companies respectively.

## **j) Government grants**

No such grants were received during 1999.

## **k) Deferred tax**

Based on Croatian rules governing the carry forward of tax losses and eligible amounts on the company's books, a deferred tax asset was calculated in 1998 to be used to reduce corporate income tax on future periods' profits.

## **l) Research and development costs**

Research and development costs are charged to the profit and loss account as incurred.

## **m) Revenue recognition**

Sales are stated net of value added tax and represent amounts invoiced to third parties.

## n) Financial instruments

### Recognised financial instruments

Podravka d.d. and subsidiaries have recognised certain financial instruments in the accounts. They have been disclosed in notes 9, 14 and 18 to the accounts.

### Unrecognised financial instruments

Podravka d.d. and subsidiaries have no unrecognised financial instruments of any significance which require note disclosure.

## 3. Property, plant and equipment

	<i>(in HRK 000)</i>				
	Land and buildings	Plant and equipment	Other assets	Assets Under construction	Total
<b>Gross valuation</b>					
At 1 January 1999	1.695,962	846,970	6,858	269,026	2.818,816
Exchange rate adjustment	950	2,363	210	134	3,657
Additions	2,622	5,576	716	357,742	366,656
Transfers from assets under construct.	120,160	195,041	66	-315,267	0
Transfer from group companies	829	105	0	0	934
Transfer to group companies	-829	-105	0	0	-934
Disposals	-96	-21,516	-748	-2,620	-24,980
At 31.12. 99 before revaluation	1.819,598	1.028,434	7,102	309,015	3.164,149
Adjustments resulting from revaluation of land	126,393	0	0	0	126,393
Adjustments resulting from revaluation of buildings	-138,223	0	0	0	-138,223
At 31.12.99 after revaluation	1.807,768	1.028,434	7,102	309,015	3.152,319
<b>Accumulated depreciation</b>					
At 1 January 1999	607,169	573,726	1,477	0	1.182,372
Exchange rate adjustment	1,042	994	66	0	2,102
Charge for the period	61,418	63,211	903	0	125,532
Transfer from group companies	157	86	0	0	243
Transfer to group companies	-157	-86	0	0	-243
Eliminated on disposal	-3	-20,576	-348	0	-20,927
At 31 December 1999	669,626	617,355	2,098	0	1.289,079
<b>Net book value</b>					
At 31 December 1999	1.138,142	411,079	5,004	309,015	1.863,240
Advance payments made					
At 1 January 1999	291	32,663	0	689	33,643
Changes	-291	-31,952	0	3,358	-28,885
At 31 December 1999	0	711	0	4,047	4,758
Total					
At 31 December 1999	1.138,142	411,790	5,004	313,062	1.867,998
At 31 December 1998	1.071,601	300,960	8,385	269,715	1.650,661



## Assets pledged

Of the items reported under the group's property, plant and equipment balance, assets valued at THRK 1.162,754 have been pledged as security for liabilities.

## Valuation

Our auditors' reports on the 1995, 1996, 1997, 30 June 1998, 1998, and 30 June 1999 consolidated financial statements had been qualified because of a significant overstatement of property, plant and equipment. A new valuation of land and buildings performed as of 31 December 1998 indicated that, overall, the 1998 book value of the property as a whole was appropriate even though a shift in value had meanwhile occurred from buildings to land. The revaluation of assets was recognised in the books as of 31 December 1999.

### In detail the situation was as follows:

The carrying value of property, plant and equipment balance disclosed in the consolidated balance sheet at 31 December 1999 before revaluation (THRK1.875,070) was based on a valuation performed (in accordance with Croatian Privatisation Regulations) internally by expert company staff in 1991 and subsequently amended (in accordance with a directive issued by the Croatian Privatisation Fund before granting final approval) and recorded in 1993, when the share capital of Podravka d.d. was determined. During our audit of the group's interim financial statements at 30 June 1995, we concluded that the values recorded for property, plant and equipment appeared to be significantly overstated. In December 1995 the group's management instructed an independent external valuer, Inzenjerski Biro Zagreb, to perform a valuation of the property, plant and equipment held by the group's Croatian companies at 31 December 1995. The independent valuation was carried out during the period from January to May 1996 and concluded that the net book values of the group's property, plant and equipment at 31 December 1995 were overstated by THRK 376,951. On the basis of a decision made by the group's management, this revaluation deficit was not recorded in the consolidated financial statements as at 31 December 1995, 1996, 1997 and 1998.

Our auditors' reports on the 1995, 1996, 1997, 30 June 1998, 1998 and 30 June 1999 financial statements were qualified accordingly.

A new valuation of land and buildings was performed as of 31 December 1998, as a follow-up on the 1995 valuation. The new valuation was carried out by the same valuer, Inzenjerski Biro Zagreb, and resulted in the calculation of updated values for land and buildings. Equipment was not covered by this new valuation exercise, which showed that buildings were still overstated in comparison to 1995 but by a lower amount. Land was found to be understated by THRK 126,393 (average market value).

As buildings now account for a lower share of the value of the entire property, the depreciation charge for 2000 will be reduced accordingly.

To check the plausibility of the outcome of the land valuation, we reviewed the amounts obtained against comparable figures provided by the Croatian Chamber of Commerce, local tax authorities and the local municipality, which proved that before 31 December 1999 the actual prices per m<sup>2</sup> had been ten times higher than book values.

The plausibility of the valuation of the buildings was examined as follows:

- We reviewed two significant samples and performed a comparison of construction costs per m<sup>2</sup> taking into account the periods over which the buildings have been used. This comparison provided evidence supporting the figures of the valuation.

### Capital commitments

At 31 December 1999 the group companies had commitments relating to the acquisition of property, plant and equipment in the amount of THRK 144,598. These are composed of as follows:

	THRK
• Authorised but not contracted for	87,037
• Contracted for	57,561
	<hr/>
	<b>144,598</b>

The group's capital commitments relate mainly to the following projects:

- THRK 4,471 have been authorised but not yet contracted for under a construction project of Podravka d.d. This project, budgeted at THRK 216,000, is for the construction of a new Vegeta factory in Koprivnica. At 31 December 1999, THRK 211,529 of the budgeted amount had already been contracted for and invested. This amount is now reported as assets under construction. The factory started production in February 2000.
- THRK 51,359 have been authorised but not yet contracted for under a construction project located in Kostrzyn, Poland, budgeted at THRK 150,000 and relating to the construction of a Vegeta factory. Of the project value, THRK 98,641 had already been contracted for at 31 December 1999. Of this value, THRK 67,806 are reported as assets under construction. The factory is scheduled to start the production in February 2000.
- THRK 1,731 have been authorised but not yet contracted for under the SAP-project originally budgeted at THRK 74,800. Of these THRK 74,800, THRK 73,069 had already been contracted for at 31 December 1999. This amount is shown under the item assets under construction. Completion of implementation and start-up of the SAP-system is scheduled for completion by 1 April 1999.

The value of items authorised but not contracted for and the remaining balance representing items contracted for relate to several small projects (eg purchase of individual items of equipment).

### Additions

In mid-1999, a new factory for pharmaceutical products in Belupo d.o.o. was taken into operation. The purchase price was THRK 286,622.

At 31 December 1999 the group was carrying property, plant and equipment with a gross value of THRK 412,840 which was fully depreciated but still in operational use.

At 31 December 1999 the group had temporarily idle property, plant and equipment with a net book value of THRK 0.

## 4. Intangible assets

Intangible assets represent mainly software licences; these are amortised over a five-year period. Additions in the amount of THRK 52,284 include THRK 51,668 spent on the SAP information system. At 31 December 1999 this is stated under assets under construction. (Also see note 3.).

## 5. Other long-term assets

	31 December 1999 (THRK)	31 December 1998 (THRK)
Investments in associates	85,133	91,335
Other investments	11,683	21,974
Other long-term loans	17,888	24,177
	<b>114,704</b>	<b>137,486</b>

Investment in associates represents the group's 40% holding in Panonska Pivovara d.o.o., Koprivnica and 20% holding in Elite Hrvatska d.o.o., Koprivnica.

Other investments comprise primarily investments held in banks (THRK 10.269). These investments are summarised as follows:

Bank	Book value of investment at 31. December 1999 (THRK)	Book value of investment at 31. December 1998 (THRK)
Varazdinska banka d.d.	5,074	5,074
Gospodarsko-kreditna banka d.d.	1,986	1,986
Podravska banka d.d.	1,325	2,205
Privredna banka d.d.	1,002	1,002
Other banks	882	1,644
	<b>10,269</b>	<b>11,911</b>

Of the shares held in Varazdinska banka d.d., 48.320 shares with a book value of THRK 4.832 were pledged to secure liabilities to Varazdinska banka d.d.

In respect of the majority of the investments held a comparison was performed with market values. In addition, we received copies of the latest financial information (1999 financial statements) available on those banks in which the most significant investments were held, and were able to confirm that the carrying value of the group's investment was covered by the group's share of the net assets of the respective bank.

Also included in other investments was an investment by Podravka d.d. in the football team Dinamo Zagreb (amounting to THRK 7,264). Management informed us that Podravka, together with a number of other industrial groups in Croatia, had been requested to make a direct investment in this football team, which had encountered financial difficulties. This situation did not change in 1997, but in 1998 a profit was made. Contrary to original expectations, dividends have not been received to date from the interest held in the football team and, from today's perspective, cannot realistically be expected to be paid in the future. Since the fair value of the shares in the football club must moreover be considered to be low, the interest was written down in the fiscal year 1999.

Other long-term loans represent amounts receivable from former employees of the group in connection with the disposal of four loss-making subsidiaries during 1997, which were sold to employee groups. The sales contracts allowed for a part of the sales price to be paid by these employee groups over an extended period.

In 1999 part of the payments due was paid. With regard to the balance still outstanding the company is currently conducting negotiations on a collection of these payments through compensation agreements. In 1999, the loan for financing the sale of Pletarstvo d.o.o. was written-off 100%.

## 6. Inventories

	31 December 1999 (THRK)	31 December 1998 (THRK)
Raw materials	179,236	189,721
Work in progress	65,092	53,810
Finished goods and merchandise	196,970	186,411
Total cost	441,298	429,942
Write-off	(6,892)	(16,599)
<b>Net book value</b>	<b>434,406</b>	<b>413,343</b>

Of the balance at 31 December 1999, THRK 13.403 was pledged as security for liabilities

## 7. Trade accounts receivable

The balance at 31 December 1999 comprises the following:

	31 December 1999 (THRK)	31 December 1998 (THRK)
Trade accounts receivable	847,706	716,087
Provision for bad debts	(161,713)	(121,941)
Subtotal	685,993	594,146
Bills receivable	20,687	158
	<b>706,680</b>	<b>594,304</b>

The trade receivables with the largest balances at the 31 December 1999 are listed below (in THRK):

	(THRK)
Medika d.d., Zagreb	64,761
Farmacija d.d., Zagreb	14,446
Konzum Trgovina na veliko i malo, Zagreb	13,410
Jadran-Pharma, Rijeka	13,329
Medifarm d.o.o., Varazdin	12,238
Medical Intertrade, Sv. Nedjelja	9,929
Ministarstvo obrane Hrvatske	9,210
Trgofolijaplast d.o.o., Zagreb	8,206
Ktc d.d. Krizevci	6,497
	<b>152,026</b>

Statements of balance as of 31 December 1999 have been obtained for key accounts. Any differences identified in the course of account reconciliation have been explained satisfactorily

The increase reflects the currently difficult liquidity situation in Croatia. Because of the liquidity shortage, the group companies make provisions based on an assessment of the status of each receivable as well as a lump-sum provision in accordance with the group's accounting policies.

## 8. Other receivables and prepaid expenses

	31 December 1999 (THRK)	31 December 1998 (THRK)
Prepaid expenses	9,114	11,984
Other receivables	7,458	2,803
Advances to suppliers	1,110	3,224
Amounts receivable from employees	2,207	2,235
Taxes receivable (other, especially VAT)	15,735	9,851
Loans granted and deposits made	893	5,539
Taxes receivable (taxes on profit)	9,276	1,413
Amounts receivable from governmental institutions	20,969	7,049
Other	30,294	25,367
Deferred taxes	30,374	30,374
<b>Total</b>	<b>127,430</b>	<b>99,839</b>

Other receivables include primarily own shares amounting to THRK 17,234, credits extended to buyers of finished goods amounting to THRK 4,061, a loan for sale of "Podravsko gospodarstvo" amounting to THRK 2,680 and loans granted to disabled persons amounting to THRK 5,073.

## 9. Cash

This item comprises the following elements:

	31 December 1999 (THRK)	31 December 1998 (THRK)
Bank balances	35,278	102,244
Cash in hand and in transit	498	6,167
	<b>35,776</b>	<b>108,411</b>

The significant decrease from the previous year in the item Bank balances is due primarily to the receipt in 1998 of the 1<sup>st</sup> instalment from the European Bank for Reconstruction and Development, which (as of 31 December 1998) was held temporarily in a bank account and then utilised for the most part at the beginning of the 1999 business year.

## 10. Share capital; share premium

	Nominal value per share (HRK)	No. of shares issued	Share capital (THRK)	Share prem. (THRK)
At 31 December 1998	300	5.779,696	1.733,909	12,001
Shares issued	300	263,000	78,900	0
<b>At 31 December 1999</b>	<b>300</b>	<b>6.042,696</b>	<b>1.812,809</b>	<b>12,001</b>

In 1993, Podravka d.d.'s share capital was set at HRK 1.990,342 by the Croatian Privatisation Fund; this represented the Kuna equivalent at 31 December 1993 of the valuation of the company, as authorised by the Croatian Privatisation Fund in 1993, at DEM 523.524,700. The registered share capital represented 5.235,247 shares with a nominal value of DEM 100 (i.e. HRK 380.18 at the exchange rate ruling at the date of the original registration).

On 27 September 1996, a shareholders' resolution was passed requiring the nominal value of each share to be reduced to HRK 300. After this reduction by THRK 419,768, the companies' share capital at 31 December 1996 amounted to THRK 1.570,574.

An application was made to the Commercial Court in 1996 to increase the company's authorised share capital from THRK 1.570,574 to THRK 1.622,009.

While this increase in the company's authorised share capital was entered into the Revised Version of the company's Articles of Association dated 30 September 1996, the increase was not ratified by the Commercial Court until 1997. The shares were issued in 1997 at a price including a premium of HRK 70 per share, resulting in a total share premium balance at 31 December 1997 amounting to THRK 12,001.

The Supervisory Board has authorised the Board of Directors to increase the share capital of Podravka d.d. by the value of THRK 360.000 (capital authorised for issue up to the amount of THRK 360,000). This authorisation was granted for a period of five years.



On 11 November 1998 the share capital was increased by THRK 111,900 (373,000 preferential shares of 300 HRK each). These shares are held by EBRD.

On 11 June 1999 another capital increase was carried out in the total amount of THRK 78,900 (263,000 preferential shares of HRK 300 each). These shares are held by EBRD, too.

Allocation of the company's shares amongst its shareholders:

	<b>31 December 1999</b>		<b>31 December 1998</b>	
	number of shares	%	number of shares	%
<b>Common shares</b>				
Privatisation Fund	660,908	10.9	1.186,022	20.5
Pension fund	183,151	3.1	992,608	17.1
Individual shareholders	2.003,635	33.2	2.096,432	36.3
Shareholders - legal entities	2.496,261	41.3	1.064,692	18.4
Treasury shares	62,741	1.0	66,942	1.2
<b>Total</b>	<b>5.406,696</b>	<b>89.5</b>	<b>5.406,696</b>	<b>93.5</b>
<b>Preferential shares</b>				
EBRD	636,000	10.5	373,000	6.5
<b>Total</b>	<b>6.042,696</b>	<b>100.0</b>	<b>5.779,696</b>	<b>100.0</b>

Based on a management decision concerning membership of Podravka d.d. in the Central Depository Agency, the company's shares were recorded in the Agency's computer system effective 22 November 1999. From this date, responsibility for the maintenance of Podravka d.d.'s share register was transferred to the Agency, which is thus authorised to issue certificates evidencing share ownership.

## 11. Legal and other reserves

Reserves comprise the following balances:

	<b>31 December 1999</b>	<b>31 December 1998</b>
	(THRK)	(THRK)
Revaluation reserve	2,108	1,498
Legal and other reserves	119,034	89,186
	<b>121,142</b>	<b>90,684</b>

Movements during the period:

	<b>Revaluation reserve (THRK)</b>	<b>Legal and other reserve (THRK)</b>
At 31 December 1998	1,498	89,186
Foreign exchange adjustment	590	37
Transfer from retained earnings	0	29,142
Other movements	20	669
<b>At 31 December 1999</b>	<b>2,108</b>	<b>119,034</b>

## 12. Retained earnings/deficit - brought forward

	31 December 1999 (THRK)
Balance at 31 December 1998	3,511
Foreign exchange adjustment	501
Transfer to reserves	(29,142)
Dividends paid	(17,226)
Other movements	(2,057)
<b>Balance at 31 December 1999</b>	<b>(44,413)</b>

## 13. Minority interests

Minority interests represent outside shareholders' interests in Podravka-International d.o.o., Bratislava and Podravka-International spol s.r.o., Prague.

Movements in minority interests during the period ended 31 December 1999:

	31. prosinca 1999. (000 kn)
Balance at 31 December 1998	315
Minority share of the companies' profits for the year	32
<b>Balance at 31 December 1999</b>	<b>347</b>

On 12 August, 1999 Podravka d.d. acquired from Cerere s.r.l., Trieste the remaining 50 % share of Podravka-International kft., Mohacs.

## 14. Long-term debt

	31 December 1999 (THRK)	31 December 1998 (THRK)
Secured loans	361,191	314,743
Unsecured loans	118,695	168,968
	<b>479,886</b>	<b>483,711</b>

The repayment terms and interest rates on long-term debt at 31 December 1999:

Amount (THRK)	Repayment period	Interest rate range
<b>Secured loans</b>		
116,343	2001	4.11 - 9.00 %
145,406	2002	4.11 - 12.00 %
59,590	2003	4.11 - 9.00 %
34,911	2004	4.11 - 7.90 %
4,941	thereafter	5.07 - 7.90 %
<b>361,191</b>		
<b>Unsecured loans:</b>		
59,015	2001	5.52 - 6.68 %
58,974	2002	5.52 - 6.68 %
91	2003	6.25 - 6.68 %
94	2004	6.25 - 6.68 %
521	thereafter	6.25 - 6.68 %
<b>118,695</b>		

Long-term liabilities are secured by the fixed assets of group companies and a guarantee of the government of Croatia, issued by the Ministry of Finance (THRK 43,625).

For an overview of long-term borrowings of Podravka d.d. and subsidiaries see Appendix 1.

## 15. Restructuring provision

The restructuring provision relates to a reorganisation program based on a formal plan that the group companies started to implement in 1999.

## 16. Non-current liabilities

This mainly represents a long-term provision for fixed asset maintenance relating to the group's Slovenian subsidiary, Sana d.o.o.

## 17. Trade accounts payable

	31 December 1999 (THRK)	31 December 1998 (THRK)
Trade creditors	359,133	385,378
Bills payable	600	82
	<b>359,733</b>	<b>385,460</b>

Statements of balance as of 31 December 1999 have been obtained for key accounts. Any differences identified in the course of account reconciliation have been explained satisfactorily.

## 18. Other payables and accrued liabilities

	31 December 1999 (THRK)	31 December 1998 (THRK)
Dividends	1,930	97
Accrued expenses	13,792	18,114
Taxes payable (on income)	1,859	305
Deferred taxes	5,238	5,498
Taxes payable (other)	42,671	27,998
Amounts payable to employees	26,523	27,106
Other short-term liabilities	38,569	13,366
Advances from customers	1,107	2,282
Deferred income	17,161	522
Other	0	1,281
	<b>148,850</b>	<b>96,659</b>

## 19. Short term debt

The balance comprises the following elements:

	31 December 1999 (THRK)	31 December 1998 (THRK)
Bank borrowings	158,738	68,859
Other short-term borrowings	11,277	9,766
	<b>170,015</b>	<b>78,625</b>

## 20. Off balance sheet liabilities

### **Bills of exchange**

As of 31 December 1999, Podravka group had endorsed bills of exchange in the total amount of THRK 7,000. A major portion of these bills had been issued by government institutions.

### **Guarantees provided**

As of 31 December 1999, group companies had provided guarantees for loans in the amount of THRK 186,113.

## 21.1. Segmental Analysis of Sales (in THRK)

### Export

Products	Domestic	Poland	Germany	Czech Republic	Slovakia	Romania	Russia
Soups	58,346	3,083	483	6,394	2,267	266	2,814
Vegeta	109,539	297,296	30,310	32,394	32,386	7,025	8,096
Babyfood	57,846	0	177	0	225	0	717
Linolada	16,117	0	0	0	0	0	0
Biscuits & others	16,663	0	0	0	0	0	0
Powdered products-Podravka	41,998	0	0	0	0	0	0
Mineral water	48,488	0	0	0	0	0	0
Preserves-vegetable	90,912	1,188	1,304	0	0	0	0
Tea	9,854	0	0	0	0	0	13
Preserves-fruit	32,024	0	47	0	0	0	0
Wafers	3,050	0	0	0	0	0	0
Services Podravka d.d.	19,053	0	0	0	0	0	0
Yeast	14,938	0	725	0	0	0	23
Flour & semolina	18,288	0	0	0	0	0	0
Bread & bakery products	13,838	0	0	0	0	0	0
Drugs	403,873	0	0	5,516	4,102	0	5,497
Cosmetics	21,484	0	0	0	0	0	0
Meat and meat products	199,674	0	1,965	0	0	0	0
Ferrero products							
- merchandise	67,861	0	0	0	0	0	0
Beer	6,608	0	0	0	0	0	0
Other	101,107	9,686	2,275	559	2,597	83	197
Total 31/12/1999	1.351,561	311,253	37,286	44,863	41,577	7,374	17,357
Total 31/12/1998.	1.389,788	362,754	34,635	36,328	30,263	7,883	43,502

Declines in turnover from the levels of the previous year occurred mainly in Croatia, Russia, Poland and Bosnia and Herzegovina.



## Export

Macedonia	Bosnia & Herzegovina	USA	Hungary	France	Slovenia	Other countries	Total export	Grand Total 12/1999	Grand Total 12/1998
14,481	17,110	755	7,385	3	11,379	22,090	88,510	146,856	142,220
8,199	28,579	12,175	47,652	536	31,776	74,055	610,479	720,018	711,649
1,828	11,284	210	3,286	0	21,216	2,788	41,731	99,577	96,397
0	349	162	0	0	1,408	0	1,919	18,036	16,188
4,877	2,717	0	1,410	0	1,618	268	10,890	27,553	23,931
3,089	15,159	186	707	0	13,004	1,016	33,161	75,159	70,225
15	2,004	0	0	0	0	56	2,075	50,563	58,283
0	1,449	924	0	0	433	4,082	9,380	100,292	111,180
0	762	226	0	0	2,196	872	4,069	13,923	17,756
199	1,704	415	0	36	2,507	2,149	7,057	39,081	38,430
1	0	0	0	0	9,509	1,061	10,571	13,621	16,917
0	0	0	0	0	0		0	19,053	26,749
196	9,419	16	308	7,543	388	690	19,308	34,246	32,562
0	110	0	0	0	0	4	114	18,402	24,511
0	0	0	0	0	0	0	0	13,838	21,909
5,172	9,848	0	0	0	21,626	565	52,326	456,199	457,651
8	36	0	0	0	145	0	189	21,673	20,679
11,377	30,324	4,321	103	0	7,791	22,064	77,945	277,619	298,060
0	1,052	0	0	0	61,497	0	62,549	130,410	167,137
0	0	0	0	0	114	0	114	6,722	10,189
496	448	412	39	3	15,609	4,590	36,994	138,101	119,707
49,938	132,354	19,802	60,890	8,121	202,216	136,350	1.069,381	2.420,942	2.482,330
48,461	144,515	18,536	48,936	5,944	198,264	112,521	1.092,542		2.482,330

## 21.2. Sales Analysis

	31. December 1999 (THRK)	31. December 1998 ( THRK)
<b>Sales</b>		
Vegeta	720,018	711,649
Soups	146,856	142,220
Drugs	456,199	457,651
Meat and meat products	277,619	298,060
Preserves-vegetables	100,292	111,180
Ferrero products merchandise	130,410	167,137
Other Products	589,548	594,433
<b>Sum</b>	<b>2.420,942</b>	<b>2.482,330</b>
<b>Property</b>		
Vegeta	92,387	102,641
Soups	38,612	39,796
Drugs	227,325	83,395
Meat and meat products	211,483	262,905
Preserves-vegetables	122,022	142,322
Ferrero products merchandise	7,090	5,732
Other Products	1.519,397	1.281,425
<b>Sum</b>	<b>2.218,316</b>	<b>1.918,216</b>
<b>Amortisation</b>		
Vegeta	8,680	8,894
Soups	4,927	3,254
Drugs	17,971	10,770
Meat and meat products	6,471	18,130
Preserves-vegetables	8,228	9,108
Ferrero products merchandise	226	215
Other products	81,569	70,314
<b>Sum</b>	<b>128,072</b>	<b>120,685</b>

## 22. Other operating income

	period ended 31 December 1999 (THRK)	period ended 31 December 1998 (THRK)
Bad debts collected	9,964	15,526
Income from prior periods	5,857	16,907
Income from product and service sales	3,806	3,280
Grants and insurance claims	6,919	6,090
Gain on the disposal of property, plant and equipment	0	24
Physical inventory surplus	6,801	926
Income from the sale of raw material (net)	10,270	10,184
Other operating income	13,431	15,309
	<b>57,048</b>	<b>68,246</b>

## 23. Depreciation of tangible and intangible assets

Analysis of charges:

	period ended 31 December 1999 (THRK)	period ended 31 December 1998 (THRK)
Property, plant and equipment	125,532	119,623
Intangible assets	2,540	1,062
	<b>128,072</b>	<b>120,685</b>

## 24. Other operating expenses

	period ended 31 December 1999 (THRK)	period ended 31 December 1998 (THRK)
Provisions for bad debts, stocks, investments and short-term financial assets	83,988	83,645
Reimbursement to employees and 3rd parties	35,717	40,033
Bank services and membership fees	11,878	15,969
Expenses from prior periods	20,522	17,673
Non-productive services	25,967	20,305
Insurance premiums	16,470	16,241
Entertainment	15,168	16,170
Contributions	16,725	19,164
Physical inventory deficit	14,067	4,134
Other employee-related costs	14,452	13,162
Loss on disposal of property, plant and equipment	4,158	6,660
Fines, penalties and damages	559	222
Additional rebates and cash discounts allowed	10,053	6,264
Consultancy costs (restructuring)	7,108	6,417
Termination payments to employees (restructuring)	7,483	17,211
Other operating expenses	14,401	49,117
	<b>298,716</b>	<b>332,387</b>

### Research and development

Research and development costs amounting to THRK 21,413 have been charged to the consolidated income statement for the period ended 31 December 1999 (31 December 1998 - THRK 30,220).

## 25. Interest and similar expenses

This item comprises external interest charges, foreign exchange differences and other financial expenses. The consolidated results for the year ended 31 December 1999 include net foreign currency translation losses amounting to THRK 21,668 (31 December 1998 THRK 36,243).

## 26. Extraordinary items (net of tax)

	(000 kn)
Transfer to restructuring provision	64,000
Corrections resulting from asset revaluation	11,830
Devaluation of the investment in the football team Dinamo Zagreb	7,200
	<b>83,030</b>

## 27. Analysis of Sales and Net Result by group entity

Company	Total Sales Dec-99 THRK	Inter-company Sales Dec-99 THRK
<b>Ongoing operations:</b>		
Podravka d.d.	1.246,212	299,269
Belupo d.o.o.	477,688	25,608
Danica d.o.o.	279,183	124,344
Koprivnička Tiskarnica d.o.o.	28,734	26,079
Poni d.o.o.	75,602	1,620
Podravka Inženjering d.o.o.	4,424	4,424
Hotel Podravina d.o.o.	6,356	1,983
Belupo d.o.o. Ljubljana	27,558	1,705
Sana d.o.o. Hoče	53,412	47,310
Podravka d.o.o. Ljubljana	198,088	27,947
Podravka d.o.o., Skopje	49,662	5,023
Podravka d.o.o., Široki Brijeg	109,573	263
Konar GmbH, Germany	60,413	25,956
Podravka-International KFT Budimpešta	66,904	6,331
Podravka-International KFT Mohač	54,358	45,231
Podravka-International Pty Ltd Sydney	23,985	0
Podravka-International d.o.o. Bratislava	39,881	2,585
Podravka-International spol s.r.o. Prag	43,897	4,550
Podravka-International d.o.o., Varšava	228,779	3,539
Podravka-Polska sp.z.o.o.; Kostrzyn	0	0
<b>Total ongoing operations:</b>	<b>3.074,709</b>	<b>653,767</b>
<b>Company scheduled for liquidation:</b>		
Poljoservis d.o.o.	0	0
Egidia d.o.o. Ljubljana	0	0
Podravka-International e.o.o.d., Sofia	0	0
<b>Total discontinued operations:</b>	<b>0</b>	<b>0</b>
<b>Total Group</b>	<b>3.074,709</b>	<b>653,767</b>
Consolidation eliminations	-653,767	
<b>Consolidated</b>	<b>2.420,942</b>	
Consolidated net profit (loss) before minority interests	2.420,942	
Minority interests	0	
Consolidated net profit (loss) after minority interests	2.420,942	

External Sales Dec-99 THRK	Net profit (loss) Dec-99 THRK	Total Sales Dec-98 HRK (000)	Inter-company Sales Dec-98 HRK (000)	External Sales Dec-98 HRK (000)	Net profit (loss) Dec-98 HRK (000)
946,943	-86,208	1.270,758	263,433	1.007,325	52,800
452,080	19,306	477,156	30,947	446,209	14,311
154,839	-64,014	314,936	152,509	162,427	-12,418
2,655	373	26,908	22,552	4,356	555
73,982	-6,624	102,968	879	102,089	260
0	98	4,927	4,865	62	56
4,373	202	0	0	0	0
25,853	74	34,519	2,394	32,125	60
6,102	4,295	53,855	46,094	7,761	1,165
170,141	-13,023	191,810	49,880	141,930	130
44,639	52	42,422	4,414	38,008	72
109,310	-6,435	113,387	426	112,961	-4,671
34,457	542	47,816	18,295	29,521	445
60,573	924	53,465	4,527	48,938	391
9,127	7,143	45,655	39,831	5,824	1,908
23,985	314	25,145	0	25,145	940
37,296	21	16,032	72	15,960	18
39,347	3	29,288	0	29,288	33
225,240	-23,215	254,462	0	254,462	-23
0	-3,864	0	0	0	0
<b>2.420,942</b>	<b>-170,036</b>	<b>3.105,509</b>	<b>641,118</b>	<b>2.464,391</b>	<b>56,032</b>
0	-16	0	0	0	-100
0	0	17,953	14	17,939	15
0	0	0	0	0	0
<b>0</b>	<b>-16</b>	<b>17,953</b>	<b>14</b>	<b>17,939</b>	<b>-85</b>
<b>2.420,942</b>	<b>-170,052</b>	<b>3.123,462</b>	<b>641,132</b>	<b>2.482,330</b>	<b>55,947</b>
	191,034	-641,132			13,076
<b>2.420,942</b>	<b>20,982</b>	<b>2.482,330</b>		<b>2.482,330</b>	<b>69,023</b>
	20,982	2.482,330			69,023
	-29	0			-949
	20,953	2.482,330			68,074



# OTHER NOTES TO THE FINANCIAL STATEMENTS

## 1. Restructuring of the company's operations

During 1999, the Podravka group undertook further significant steps to improve its liquidity and profitability.

The cost of materials and services relative to total operating income was reduced from 60% in 1998 to 57% in 1999.

Spending on production and logistics was also reduced systematically across the entire group.

The average interest rate paid by the group on its borrowings declined from 7.5% in 1998 to 7% in 1999. Because of the customers' - especially the government institutions' - poor payment behaviour and general insolvency in Croatia, however, the group had to raise short-term loans to maintain its own solvency. These short-term loans were relatively more expensive and had a depressing effect on profits.

Sponsorship costs were reduced by THRK 7,462 in 1999 from a higher level in 1998. In 1999, 129 employees terminated their employment, which resulted in severance payments in the total amount of THRK 7,483.

Podravka group has started using its new SAP R/3 IT system, which integrates business processes with financial accounting.

Once the SAP R/3 system has been fully implemented- which is not yet the case - it will improve management reporting (especially finance, controlling, production, sales, distribution, materials and finished goods management as well as planning of business processes and human resources), enable more efficient operations management, quicker decision-making and more effective control of the business plan and budget implementation.

The main focus of the project is on operations management including control functions in newly established cost centres. After its completion, inventory accounting methods will be modified for more precise cost measurement and allocation. Once operational, the cost accounting system will allow the determination of idle capacity costs and the resulting adjustments to inventory carrying value as well as more detailed product costing and monitoring of unused capacity.

Important capital spending projects are close to completion. Investment in new production plants for branded food in Croatia and Poland will enable cheaper and better quality production as early as 2000 and reduce logistic problems substantially. The capital increase provided by EBRD on 11 June 1999 in the amount of THRK 78,900 was used exclusively for financing strategic investments.

The purchase of the 50% share in the Mohacs factory from Cerere s.r.l. Trieste had an impact on earnings.

Belupo d.o.o. has concluded important licence agreements with SmithKlineBeecham and Hoffman La Roche concerning the production and distribution of 2 new pharmaceuticals, whose impact on turnover and profit should be noticeable even in the year 2000.

280 products have been newly developed or upgraded. Out of a total of 125 new products, a large majority - 109 - were developed by the Branded Food Division. The new products are expected to have a significant positive impact on profitability in the year 2000.

The forecast foresees the introduction of further new products as well as the development of new markets and the expansion of market shares in existing markets.

In general, individual business units and the group as a whole are to become more transparent. The prerequisites and plans for further restructuring have been established and should, in combination with a systematic reduction of all types of costs, enable the achievement of better results in the year 2000.

As the 1999 balance sheet marks the solution of past problems including the overstatement of long-term assets and problems concerning Danica d.o.o. as well as the need for other provisions and write-offs of potentially doubtful items, the conditions are now in place for preparatory activities to go ahead in the year 2000 in respect of the company's listing at an international stock exchange at the beginning of 2001.

## 2. Events after the balance sheet date

On 20 January 2000, a loan agreement in the total amount of DEM 24.000.000 was entered into by Podravka Polska as Borrower and

- Bank Przemyslowo-Handlowy Spolka Akcyjna as Facility Agent and Facility Bank,
- Bank Austria Creditanstalt Poland Spolka Akcyjna as Facility Bank and
- Bayerische Hypo- und Vereinsbank Aktiengesellschaft as Facility Bank.

The total facility amount of DEM 24 million is secured by a guarantee provided by the parent company and Podravka International Export-Import Limited, Warsaw as well as by a security furnished by the borrower to the facility banks, including fixed cap mortgages on real property, registered pledge agreements and security agreements.

## Appendix 1

### Long-term debt and Current portion of long-term debt

Bank	Interest rate	Currency	Credit amount in foreign currency (000)	Credit amount in THRK (000)		Difference in %
				31. December 1999	31. December 1998	
<b>Podravka d.d.</b>						
Raiffeisenbank d.d. Zagreb	8.5%	DEM	6,250	24,539	23,373	+4.99
Raiffeisenbank Austria AG	7%	DEM	7,500	29,447	21,036	+39.98
Zagrebačka banka d.d. Zagreb	9%	DEM	2,814	11,048		
	5.33 - 8.00%	DEM	1,716	6,735		
	7.9%	ATS	2,476	1,382		
	6.68%	USD	62	472		
	7.35%	ITL	122,231	485	20,122	45,460 -55.74
Croatia d.d. Zagreb	8.5%	HRK		0	1,000	-100.00
Hypobank Klagenfurt AG	7%	DEM	2,746	10,780		
	7%	DEM	682	2,675		
	7%	DEM	450	1,767		
(Bond)	10%	ATS	70,000	39,064	54,286	59,545 -8.83
Bank Austria AG, Wien	3.64 %	DEM	11,111	43,625	58,175	-25.01
EBRD - kredit						
Dalmatinske banke d.d.	8.50%	DEM	1,000	3,926		
	8.50%	DEM	1,167	4,581		
	8.50%	DEM	1,167	4,581	13,088	15,584 -16.02
Privredna Banka d.d. Zagreb	5.49%	DEM	20,554	80,699		
	5.49%	DEM	5,667	22,252	102,951	23,118 +345.33
Bayerische Hypo - und Vereinsbank AG, Muenchen	5.52%	DEM	45,000	176,680	224,382	-21.26
				467,381	471,673	+1.86
<b>Belupo d.o.o.</b>						
Varaždinska banka d.d.	9%	HRK		25,920		+100.00
Varaždinska banka d.d.	12%	HRK		22,700	23,000	-1.30
Privredna banka d.d., Zagreb	7%	HRK		70,672	64,262	+9.97
Dispomed d.o.o., Zagreb	9%	HRK		0	9,382	-100.00
Mercur-Mainz GmbH	4.11%	DEM	11,345	44,543	51,301	-13.17
Bayerische Hypo - und Vereinsbank AG, Muenchen	5.57%	DEM	10,000	39,262	0	+100.00
				203,097	147,945	+37.28
Other Subsidiaries		HRK		25,593	11,092	+130.73
<b>TOTAL</b>				<b>696,071</b>	<b>630,710</b>	<b>+10.36</b>

# INFORMATION TO SHAREHOLDERS

## SHAREHOLDER STRUCTURE

In 1999, certain changes took place in the shareholder structure of Podravka d.d.

On 10 July 1998, Podravka signed a Subscription Agreement with the European Bank for Reconstruction and Development (EBRD) whereby Podravka would increase its share capital by DEM 50 million and the EBRD would subscribe and pay for these shares, fully excluding the right of all other shareholders to priority when subscribing for new shares. The subscription and payment for these shares would take place in two tranches: tranche A of DEM 30 million and tranche B of DEM 20 million.

The EBRD investment of DEM 50 million was carried out as follows: Tranche A of DEM 30 million was paid at the end of 1998 and tranche B of DEM 20 million was paid on 8 June 1999. This increased the share capital of Podravka d.d. by HRK 190,800,000. The registration of 636,000 convertible preference shares gave EBRD 10.53% of the share capital.

The share capital was increased from HRK 1,733,908,800 to HRK 1,812,808,800 and divided into 5,406,696 "A" series ordinary shares and 636,000 "B" series preference shares. The company issued 263,000 new "B" series registered preference shares each with a nominal value of HRK 300 and with a total nominal value of HRK 78,900,000 or 4.35 % of the share capital.

On 31 December 1999, Podravka d.d. held a total of 62,741 treasury shares.

On 22 December 1999, a contract was signed by Podravska banka d.d. and Podravka d.d. for the sale and transfer of shares, by which Podravka d.d. purchased 2,933 "A" series ordinary Podravka d.d. shares from Podravska banka d.d., thus increasing the number of ordinary shares owned by Podravka d.d. by that amount to a total of 65,674 treasury shares, which represents 1.0869% of the share capital.

On 17 September 1999, the Podravka d.d. Management Board approved settlement of the difference up to the full share by using company treasury shares for 5,098 internal shares. The difference of 28 internal shares, ownership of which could not be established, were registered as company treasury shares.

On 4 November 1999, the Central Depository Agency (SDA), at the request of Podravka d.d., accepted Podravka d.d. as an issuing member. On the same day, it was decided to transfer all the data on Podravka d.d. shareholders and their shares from the Podravka d.d. Shareholders' Register to the Depository held by the SDA. All data on shares and shareholders in the Podravka d.d. Shareholders' Register were transferred to the SDA computer system as at 9 November 1999, and the Podravka d.d. Shareholders' Register was discontinued on 22 November 1999.

The Podravka d.d. shareholder structure as at 31 December 1999 was as follows:

SHAREHOLDERS	NUMBER OF SHARES	% OF SHARE CAPITAL
Individuals	2.003,635	33.2
Croatian Privatisation Fund	660,908	10.9
Pension Funds*	992,608	16.4
Privatisation Investment Funds	663,081	11.0
EBRD	636,000	10.5
Other legal entities	1.023,723	17.0
Treasury shares	65,674	1.0
<b>TOTAL</b>	<b>6.042,696</b>	<b>100.0</b>

\*809,457 (13.4%) of the shares of Pension Funds are in the custody of Privredna banka Zagreb.

## PODRAVKA d.d. SHARE TRADING IN 1999

The total trade in Podravka shares in 1999 amounted to HRK 14,542,239.79, i.e. 190,383 shares. The maximum price at the Zagreb Stock Exchange was HRK 106.00, the minimum price HRK 60.00, the latest price HRK 89.00 kuna, the average weighted price HRK 76.38, and the average price HRK 76.70.

## PODRAVKA d.d. ANNUAL GENERAL MEETING IN 1999

Podravka d.d. Annual General Meeting was held on 18 June 1999. The meeting made the following decisions: The Decision to adopt the 1998 financial reports, The Decision on the 1998 Profit Allocation, The Decision on the note of release to Members of the Podravka d.d. Management Board and the Decision on the note of release to Members of the Podravka d.d. Supervisory Board.

## SHARES IN PODRAVKA d.d. HELD BY MEMBERS OF THE PODRAVKA d.d. MANAGEMENT BOARD AND THE PODRAVKA D.D. SUPERVISORY BOARD

As at 31 December 1999

	Number of shares held
Ante Babić	212
Vlado Marić	604
Stanislav Biondić	209
Branka Perković	304
Jürg Schütz	0
Božo Prka	0
Slavko Antolić	100
Franjo Cirkvenec	0
Željko Đurđina	321
Sonja Klingor	0
Zvonimir Majdančić	211
Darko Ostoja	0
Juliet Sjöborg	0
Tin Dolički	0

## CHANGES IN PODRAVKA d.d. SHARE CAPITAL

Podravka d.d. Koprivnica and CERERE s.r.l., Trieste signed on 12 August 1999 a contract on the sale and transfer of ownership in Podravka Kft. Mohacs in the Republic of Hungary by which CERERE s.r.l., Trieste sold and transferred to Podravka d.d. Koprivnica its entire stake in Podravka Kft., Mohacs. According to the contract on founding Podravka Kft. Mohacs made on 12 October 1995 in Budapest, Podravka d.d. Koprivnica and CERERE s.r.l., Trieste each held 50% ownership in Podravka Kft. Mohacs.

The Podravka d.d. Management Board made the Decision to increase the share capital of the subsidiary company Podravka Polska Sp. z o.o., Kostrzyn in order to finance investment in the construction of a Vegeta, soup and powdered products plant in Poland (Kostrzyn). The share capital increase will amount to DEM 12 million and will be effected in successive payments not later than 30 June 2000.

# SUBSIDIARIES

## Companies in the Republic of Croatia:

**1. Podravka d.d.**  
48000 Koprivnica  
C. Starčevića 32  
tel. ++385 48 65 10  
faks. ++385 48 622 518  
or Podravka d.d.  
48001 Koprivnica, p.p. 36

**2. Belupo d.o.o.**  
48000 Koprivnica  
Opatička 5  
tel. ++385 48 659 000  
faks. ++ 385 48 624 271

**3. Danica d.o.o.**  
48000 Koprivnica  
Đelekovečka cesta 21  
tel. ++385 48 65 10  
faks. ++ 385 48 647 067

**5. Koprivnička tiskarnica d.o.o.**  
48000 Koprivnica  
Đure Esterca 1  
tel. ++385 48 622 267  
faks. ++ 385 48 622 267

**6. Podravka – Inženjering d.o.o.**  
48000 Koprivnica  
Trg kralja Tomislava 13  
tel. ++385 48 65 10  
faks. ++ 385 48 621 225

**7. Poni d.o.o.**  
48000 Koprivnica  
C. Starčevića 41  
tel. ++385 48 65 10  
faks. ++385 48 622 541

**8. Hotel Podravina d.o.o**  
48000 Koprivnica  
Hrvatske državnosti 9  
tel. ++385 48 621 025  
faks. ++ 385 48 621 178

## Companies and representative offices abroad:

**1. Podravka d.o.o.**  
Ljubljana, Tivolska 50  
Slovenia  
tel. ++ 386 61 1320 301  
faks. ++386 61 312 080

**2. Belupo d.o.o.**  
Ljubljana, Dvoržakova 6  
Slovenia  
tel. ++ 386 61 1324 104  
faks. ++386 61 1326 311

**3. Podravka – International spol.s.r.o.**  
Prag, ul. Fr. Kadlece 572/XVI  
the Czech Republic  
tel. ++420 2 660 19 200  
faks. ++420 2 660 19 205

**4. Podravka – International Kft.**  
Budimpešta, Szep u. 5/II  
Hungary  
tel. ++36 1 26 62 686  
faks. ++36 1 33 84 329

**5. Podravka d.o.o.**  
Skopje, Ulica kolektorska bb  
Macedonia  
tel. ++389 91 165 502  
faks. ++ 389 91 164 546

**6. Podravka – International Pty. Ltd.**  
Peakhurst NSW 2210, 1/53 Lorraine Street  
Australia  
tel. ++61 2 9584 0188  
faks. ++61 2 9584 0421

**7. Podravka d.o.o.**  
Široki Brijeg, Varaždinska bb  
Bosnia - Hercegovina  
tel. ++387 88 703 877  
faks. ++387 88 700 299



**8. Podravka Polska Sp.z.o.o.**

Kostrzyn n/Odra, ul. Kopernikova 4a  
Poland  
tel. ++48 95 728 4410  
faks. ++48 95 728 4412

**9. Sana d.o.o.**

Hoče, Stara cesta 20  
Slovenia  
tel. ++ 386 62 611 021  
faks. ++ 386 62 611 117

**10. Podravka – International s.r.o.**

Bratislava, Zahradnicka 68  
Slovakia  
tel. ++421 7 5020 2811  
faks. ++421 7 5020 2825

**11. Konar GmbH**

Geretsried, Woehlerweg 8  
Germany  
tel. ++49 8171 52025  
faks. ++49 8171 80138

**12. Podravka – International Sp.z.o.o.**

Varšava, Ul. Rejtana 15/24  
Poland  
tel. ++48 22 646 1870  
faks. ++48 22 849 7050

**13. Podravka Kft.**

Mohač, Budapesti orszagut 45  
Hungary  
tel. ++36 69 311 822  
faks. ++36 69 311 646

**14. Podravka – International**

Moskva, Kutuzovski prospect 13, ap.12-13  
Russian Federation  
tel. ++7 095 243 6927  
faks. ++7 095 243 7483

**15. Podravka – International spol.s.r.o.**

Zastoupení firmy Belupo  
Prag, ul. Fr.Kadlece 572/XVI  
the Czech Republic  
tel. ++420 2 660 19 255  
faks. ++420 2 660 19 257

**16. Belupo, lijekovi i kozmetika Ltd.**

Moskva, Kutuzovski prospect 13, ap.12-13  
Russian Federation  
tel. ++7 095 243 6927  
faks. ++7 095 243 7483

# 1999 FINANCIAL HIGHLIGHTS

## COMPARED TO 1998

	1999	1999 operating activities	1998
<b>Total operating revenues (HRK 000)</b>	2.494,627		2.535,536
% change	-1.61		
<b>Total sales</b>	2.420,942		2.482,330
% change	-2.47		
<b>Revenues from domestic sales (HRK 000)</b>	1.351,561		1.389,788
% change	-2.75		
<b>Revenues from foreign sales (HRK 000)</b>	1.069,381		1.092,542
% change	-2.12		
<b>EBIT (earnings before interest and tax) (HRK 000)</b>	182,586		128,258
% change	42.36		
<b>EBITDA (HRK 000)</b>	310,658		248,943
% change	24.79		
<b>Net profit / loss (HRK 000)</b>	20,953	104,012	68,074
% change	-69.22	52.79	
<b>EPS (earnings per ordinary share) (HRK)</b>	1.62	17.18	12.49
% change	-87.03	37.55	
<b>Total assets (HRK 000)</b>	3.367,130		3.035,162
% change	10.94		
<b>Capital and reserves (EQUITY) (HRK 000)</b>	1.922,839	1,986,839	1.840,420
% change	4.48	7.96	
<b>Cash flow (HRK 000)</b>	35,776		108,411
% change	-67.00		
<b>Number of employees</b>	6,827		6,898
% change	-1.03		
<b>Net profit / number of employees (HRK 000)</b>	3	15	10
% change	-70.0	50.0	
<b>ROE (return on equity) %</b>	1.09	5.41	3.70
% change	-70.55	46.20	
<b>Total investments (HRK 000)</b>	350,560		273,362
% change	28.24		



# Annual Report 1999



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