

PODRAVKA GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2002**

AUDITORS' REPORT TO THE SHAREHOLDERS OF PODRAVKA d.d.

We have audited the accompanying balance sheet of Podravka d.d. ("the Company"), and of Podravka d.d. and its subsidiaries ("the Group") as at 31 December 2002, and the related income and cash flow statements for the year then ended. These financial statements set out on pages 2 to 36 are the responsibility of the Group's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the consolidated and non-consolidated financial statements present fairly in all material respects the financial position of the Podravka Group and Podravka d.d. as at 31 December 2002, and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards.



PricewaterhouseCoopers d.o.o.
Zagreb, 20 March 2003

PODRAVKA GROUP

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

<i>(in thousands of HRK)</i>	Note	Podravka Group		Podravka d.d.	
		2002	2001	2002	2001
Sales	3	2,746,793	2,537,042	1,404,998	1,313,437
Cost of goods sold	5	(1,604,554)	(1,490,867)	(909,151)	(856,215)
Gross profit		1,142,239	1,046,175	495,847	457,222
Other revenues	4	96,544	52,392	23,607	32,383
General and administrative expenses	6	(302,201)	(275,019)	(199,434)	(191,976)
Selling and distribution expenses	7	(776,031)	(705,328)	(322,626)	(306,279)
Operating profit/(loss)		160,551	118,220	(2,606)	(8,650)
Net financial (expense)/income	8	(4,343)	(53,967)	94,303	37,120
Net foreign exchange (losses)/gains		(22,943)	17,961	(15,550)	7,805
Profit before tax		133,265	82,214	76,147	36,275
Tax on profit	10	(24,722)	(20,215)	-	-
Net profit		108,543	61,999	76,147	36,275
Minority interests		(55)	(62)	-	-
Net profit		108,488	61,937	76,147	36,275
Basic earnings per share	11	HRK 16.76	HRK 7.83		
Diluted earnings per share	11	HRK 18.23	HRK 10.41		

The financial statements set out on pages 2 to 36 were approved by the Management Board on 20 March 2003.

President of the Management Board

Darko Marinac

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

PODRAVKA GROUP

BALANCE SHEET

AS AT 31 DECEMBER 2002

		Podravka Group		Podravka d.d.	
(in thousands of HRK)	Note	2002	2001	2002	2001
ASSETS					
Non-current assets					
Investments in subsidiaries	12	-	-	451,101	331,046
Long-term loan receivables	13	106,351	21,279	307,135	290,873
Intangible assets	14	195,196	69,766	120,182	47,638
Property, plant and equipment	15	1,744,860	1,644,098	1,021,969	964,388
Total non-current assets		2,046,407	1,735,143	1,900,387	1,633,945
Current assets					
Inventories	16	597,110	472,030	288,817	257,654
Available-for-sale investments	17	7,897	76,500	6,542	70,266
Trade receivables	18	630,150	581,180	313,905	269,220
Other receivables and prepaid expenses	19	65,653	40,297	114,662	85,359
Current portion of long-term loan receivables	13	4,078	3,940	91,855	69,833
Short-term loan receivables	20	9,651	4,772	46,634	44,687
Cash and cash equivalents	21	110,468	72,193	66,061	35,577
Total current assets		1,425,007	1,250,912	928,476	832,596
Total assets		3,471,414	2,986,055	2,828,863	2,466,541

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

PODRAVKA GROUP

BALANCE SHEET

AS AT 31 DECEMBER 2002

<i>(in thousands of HRK)</i>		Podravka Group		Podravka d.d.	
	Note	2002	2001	2002	2001
LIABILITIES					
Non-current liabilities					
Long-term debt	22	496,116	311,005	367,235	178,262
Total non-current liabilities		496,116	311,005	367,235	178,262
Current liabilities					
Trade payables	23	430,545	338,816	244,435	215,895
Other liabilities	24	136,561	109,184	73,990	56,268
Short-term borrowings	25	229,545	110,630	110,938	35,124
Current portion of long-term debt	22	159,139	176,870	89,785	94,480
Total current liabilities		955,790	735,500	519,148	401,767
Total liabilities		1,451,906	1,046,505	886,383	580,029
Shareholders' equity					
Share capital		1,812,809	1,812,809	1,812,809	1,812,809
Share premium		12,001	12,001	12,001	12,001
Treasury shares		(30,730)	(30,971)	(30,730)	(30,971)
Revaluation reserve		39,992	39,992	39,286	39,286
Legal and other reserves		35,610	38,459	32,967	35,966
Foreign currency translation reserve		(5,010)	3,396	-	-
Retained earnings		154,286	63,369	76,147	17,421
Total shareholders' equity	26	2,018,958	1,939,055	1,942,480	1,886,512
Minority interest	28	550	495	-	-
Total liabilities		3,471,414	2,986,055	2,828,863	2,466,541

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

GRUPA PODRAVKA

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2002

Podravka Group	Note	Share capital	Share premium	Treasury shares	Revaluation reserve	Legal and other reserves	Retained earnings	Translation reserve	Total
<i>in thousands of HRK</i>									
Balance at 1 January 2001	26 /i/	1,812,809	12,001	(14,482)	39,992	36,104	87,420	57	1,973,901
Value adjustment	26 /vi/	-	-	-	-	-	(68,811)	-	(68,811)
Transfer to legal reserves	26 /iv/	-	-	-	-	2,355	(2,355)	-	-
Purchase of treasury shares	26 /v/	-	-	(16,489)	-	-	-	-	(16,489)
Dividend declared	26 /iii/	-	-	-	-	-	(14,822)	-	(14,822)
Net profit for the year	-	-	-	-	-	-	61,937	-	61,937
Exchange differences	-	-	-	-	-	-	-	3,339	3,339
Balance at 31 December 2001	26 /i/, /ii/	1,812,809	12,001	(30,971)	39,992	38,459	63,369	3,396	1,939,055
Transfer to legal reserves	26 /iv/	-	-	-	-	1,849	(1,849)	-	-
Purchase of treasury shares	26 /v/	-	-	(71)	-	-	-	-	(71)
Sale of treasury shares	26 /v/	-	-	312	-	-	-	-	312
Dividend declared	26 /iii/	-	-	-	-	(4,698)	(15,722)	-	(20,420)
Net profit for the year	-	-	-	-	-	-	108,488	-	108,488
Exchange differences	-	-	-	-	-	-	-	(8,406)	(8,406)
Balance at 31 December 2002	26 /i/, /ii/	1,812,809	12,001	(30,730)	39,992	35,610	154,286	(5,010)	2,018,958

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

GRUPA PODRAVKA

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2002

Podravka d.d.	Note	Share capital	Share premium	Treasury shares	Revaluation reserve	Legal and other reserves	Retained earnings	Total
<i>in thousands of HRK</i>								
Balance at 1 January 2001	26 /i/	1,812,809	12,001	(14,482)	39,286	33,120	29,188	1,911,922
Value adjustment		-	-	-	-	-	(30,374)	(30,374)
Transfer to legal reserves	26 /iv/	-	-	-	-	2,846	(2,846)	-
Purchase of treasury shares	26 /v/	-	-	(16,489)	-	-	-	(16,489)
Dividend declared	26 /iii/	-	-	-	-	-	(14,822)	(14,822)
Net profit for the year		-	-	-	-	-	36,275	36,275
Balance at 31 December 2001	26 /i/, /ii/	1,812,809	12,001	(30,971)	39,286	35,966	17,421	1,886,512
Value adjustment		-	-	-	-	-	-	-
Transfer to legal reserves	26 /iv/	-	-	-	-	1,699	(1,699)	-
Purchase of treasury shares	26 /v/	-	-	(71)	-	-	-	(71)
Sale of treasury shares	26 /v/	-	-	312	-	-	-	312
Dividend declared	26 /iii/	-	-	-	-	(4,698)	(15,722)	(20,420)
Net profit for the year		-	-	-	-	-	76,147	76,147
Balance at 31 December 2002	26 /i/, /ii/	1,812,809	12,001	(30,730)	39,286	32,967	76,147	1,942,480

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

PODRAVKA GROUP

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2002

<i>(in thousands of HRK)</i>	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
Cash flows from operating activities				
Net profit	108,488	61,937	76,147	36,275
Depreciation	187,876	180,668	98,547	95,847
Value adjustment of current assets	28,060	53,479	3,624	19,453
Value adjustment of investments	5,637	14,477	(1,851)	10,000
Income from sales of investments	(41,265)	(321)	(40,555)	(321)
Other non-cash items	(1,335)	1,770	6,055	4,273
	287,461	312,010	141,967	165,527
(Increase)/decrease in inventories	(104,760)	24,360	(31,700)	7,136
(Increase)/decrease in trade receivables	(35,052)	(99,069)	(47,244)	15,442
(Increase)/decrease in other current assets	(24,260)	2,596	(26,347)	(41,695)
Increase in trade payables	55,845	38,083	28,540	37,301
Decrease in provisions	-	(62,504)	-	(39,180)
Increase in other liabilities	76,415	87,573	26,231	33,957
Tax paid	(23,792)	(13,112)	-	-
Interest paid	(41,538)	(67,414)	(21,011)	(36,356)
	190,319	222,523	70,436	142,132
Cash flows from investing activities				
Purchase of subsidiaries, net cash acquired	(100,388)	-	(105,702)	(629)
Sale of shares and equity interest	87,962	1,328	87,962	1,328
Purchase of tangible and intangible assets	(293,706)	(70,917)	(217,347)	(38,847)
Disposal of tangible and intangible assets	8,125	46,053	4,824	43,283
Long-term loans given and deposits	(88,755)	(7,884)	(89,552)	(44,509)
Repayment of long-term loans and deposits given	3,593	7,260	69,118	46,132
Acquisition of available-for-sale investments	(108,944)	-	(108,944)	-
Sale of available-for-sale investments	106,733	-	106,733	-
Short-term loans given and deposits	-	-	(32,221)	-
Repayment of short-term loans and deposits given	-	-	5,264	-
Dividends paid	(20,420)	(14,822)	(20,420)	(14,822)
	(405,800)	(38,982)	(300,285)	(8,064)
Cash flows from financing activities				
Purchase of treasury shares	(71)	(16,489)	(71)	(16,489)
Sale of treasury shares	312	-	312	-
Proceeds from long-term borrowings	310,132	175,866	280,351	138,889
Repayment of long-term borrowings	(158,690)	(290,717)	(96,073)	(198,595)
Proceeds from short-term loans	378,967	183,575	339,152	145,826
Repayment of short-term loans	(285,716)	(198,146)	(263,338)	(180,510)
	244,934	(145,911)	260,333	(110,879)
Effect of change in exchange rates on cash	8,822	(5,510)	-	-
Net increase in cash and cash equivalents	38,275	32,120	30,484	23,189
Cash and cash equivalents:				
At the beginning of year	72,193	40,073	35,577	12,388
At the end of year	110,468	72,193	66,061	35,577

NOTE 1 – GENERAL INFORMATION

Podravka prehrambena industrija d.d., Koprivnica (the “Company”) is incorporated in the Republic of Croatia. The Company and its subsidiaries (the “Podravka Group”) are manufacturers of a wide range of foodstuffs and non-alcoholic beverages, pharmaceutical and cosmetic products.

NOTE 2 – ACCOUNTING POLICIES

2.1 Basis of presentation

The consolidated financial statements of the Podravka Group and the financial statements of the Company are prepared in accordance with International Financial Reporting Standards (“IFRS”).

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

The consolidated financial statements and the financial statements of the Company are presented in Croatian kuna (HRK). The principal accounting policies have been consistently applied for all periods covered by this report.

2.2 Accounting conventions

The consolidated financial statements of the Group are prepared using the historical cost convention (acquisition cost), with the exception of non-current assets acquired prior to 31 December 1993, which were subject to independent valuation at market value.

2.3 Principles and methods of consolidation

The Podravka Group consists of the parent Company and its subsidiaries. A listing of the Group’s subsidiaries is set out in Note 12. All intragroup transactions have been eliminated on consolidation.

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Investments in associated undertakings over which the Company exercises significant influence are accounted for by the equity method of accounting.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4 Foreign currencies

(1) Measurement currency

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

(2) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

(3) Group companies

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

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

2.5 Property, plant and equipment

Property, plant and equipment is included in the balance sheet at cost less accumulated depreciation, except for assets acquired before 31 December 1993 which are recorded at restated cost less restated accumulated depreciation and included in the registered shareholder’s equity. Cost includes all costs directly attributable to bringing the asset to working condition for its intended use and the proportion of the related borrowing costs for property, plant and equipment for the period of their construction.

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

NOTE 2 – ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Depreciation is calculated so as to write off the cost, or valuation of tangible fixed assets, less their estimated residual values, on a straight-line basis over their expected useful lives. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life or the lease term.

The expected useful lives are as follows:

	2002	2001
Buildings	10 to 50 years	10 to 50 years
Plant and equipment	2.7 to 33 years	2.7 to 33 years
Fixtures and fittings	2.7 to 15 years	2.7 to 15 years

Land and assets in the course of construction are not depreciated.

2.6 Intangible assets

(1) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

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

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

(2) Patents, licenses and trademarks

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

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

NOTE 2 – ACCOUNTING POLICIES (continued)

2.7 Investments

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

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

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

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

2.8 Inventories

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

2.9 Trade Receivables

Trade receivables are stated at their nominal value less necessary provisions for bad and doubtful debts. The provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

2.10 Cash and cash equivalents

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

NOTE 2 – ACCOUNTING POLICIES (continued)

2.11 Profit tax

Profit tax is computed on the basis of reported income under the laws and regulations of the country in which the respective Group company is registered.

For the Company and subsidiaries in Croatia, the corporate profit tax is calculated by applying a 20% rate to the taxable base as prescribed by law, in previous years less protective interest. The taxable base represents profit increased or decreased by certain items which are added to or deducted from the tax base.

Under Croatian tax regulations, tax loss can be carried forward in the next five years.

2.12 Deferred taxes

Deferred tax is provided in full, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.13 Share capital

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

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

2.14 Borrowings

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

On the issue of short term commercial papers, the fair value of the liability is determined using the market interest rate. Commercial papers are recognised initially at the proceeds received increased by the market interest rate.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.15 Provisions

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

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

2.16 Employee benefits

(1) Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits.

(2) Bonus plans

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

2.17 Revenue recognition

Amounts received or receivable for goods sold or services provided are recognised as revenue when the goods are delivered or the services are provided. They are stated net of taxes, discounts and rebates.

2.18 Dividends

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

NOTE 2 – ACCOUNTING POLICIES (continued)

2.19 Financial risk management

(1) Financial risk factors

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

(2) Foreign exchange risk

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

(3) Credit Risk

The Group's liquidity risk management includes maintaining sufficient cash and working capital, and availability of funding through an adequate amount of committed credit facilities.

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

(4) Interest rate risk

The Group's income and operating cash flows are dependent on changes in market interest rates. The majority of the Group's borrowings are stated at variable rates. Group treasury policies include use of interest rate swaps for hedging of future interest payments.

(5) Fair value estimation

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

NOTE 3 – SEGMENT INFORMATION

The Group's reportable segments are strategic businesses differentiated by the nature of products including: Vegeta, Drugs and Cosmetics, Podravka dishes, Lino, Dolcela and Kvik, Fruit and Vegetables, Beverages, Mill and bakery products, Merchandise and other.

- The business segment Vegeta includes all types and packagings of Vegeta, its production is organised at the Vegeta factory in Koprivnica, in Mohacs, Hungary and in Kostrzynu, Poland,
- The Drugs and Cosmetics segment includes various drugs and cosmetics produced at the Belupo d.d. plant in Koprivnica and Ludbreg,
- The Podravka dishes segment includes the production of soups, half-cooked meals and meal seasonings. The production of Podravka dishes is organised at the soup factory in Koprivnica, in Mohacs, Hungary and in Kostrzyn, Poland,
- The Meat and meat products segment includes fresh meat, sausage, smoked and cured products, canned meat and deep freeze products. The production is organised at the Danica d.o.o. plant in Koprivnica,
- The Lino, Dolcela and Kvik segment includes the production of baby food, Lino-Lada, Dolcela, Kvik-salty snacks, Ponita (powdered beverage) and grits. The production is organised at plants in Koprivnica and at the Sana factory in Slovenia.
- The Fruit and Vegetable segment includes fruit, vegetable and tea products produced in three locations in Croatia – at the factories Kalnik in Varaždin, Povrće Umag and Voće Koprivnica,
- The Beverages segment includes natural, aromatised and mineral water and the product Deit. The production is organised at the Studenac factory in Lipik.
- The Mill and bakery products segment includes flour and coarsely milled grain as well as bakery products (bread, rolls etc.),
- By selling merchandise, the Podravka Group widens its selection in order to maintain and strengthen its market position, increase its market shares, thus decreasing the influence of the competition,
- The "Other" segment refers to services, catering, canteens and new product range that Podravka took over by acquiring new subsidiaries in 2002 (ice-cream, rice, Leguminosae).

The segments are managed separately due to the differences in their production technologies. Reports of business segments up to gross profit are based on internal financial data of management accounts.

The analysis of revenue and gross profit by business segments as well as the analysis of revenue by geographical markets are presented below.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

NOTE 3 – SEGMENT INFORMATION (continued)

Analysis by business segment

	Podravka Group							
	2002				2001			
	Sales		Gross profit		Sales		Gross profit	
	(in thousands of HRK)	%	(in thousands of HRK)	%	(in thousands of HRK)	%	(in thousands of HRK)	%
Vegeta	689,817	25.1	394,935	34.6	704,863	27.8	435,524	41.6
Drugs and Cosmetics	550,569	20.1	285,930	25.0	543,804	21.5	267,831	25.6
Podravka dishes	272,218	9.9	107,886	9.5	265,023	10.4	93,391	8.9
Meat and meat products	257,317	9.4	45,446	4.0	248,451	9.8	30,048	2.9
Lino, Dolcela, Kwiki	253,358	9.2	106,422	9.3	245,126	9.7	94,775	9.1
Fruit and vegetables	181,748	6.6	39,863	3.5	174,359	6.9	50,216	4.8
Merchandise	232,058	8.4	49,297	4.3	124,068	4.9	20,538	2.0
Beverages	138,324	5.0	50,202	4.4	99,894	3.9	37,097	3.5
Mill and bakery products	62,902	2.3	10,808	0.9	49,084	1.9	16,336	1.6
Other	108,482	4.0	51,450	4.5	82,370	3.2	419	0.0
	2,746,793	100	1,142,239	100	2,537,042	100	1,046,175	100

The acquisition of the new subsidiaries Ital Ice, Poreč and Lagris, Czech Republic and Slovakia in 2002 resulted in increasing the revenue in relation to 2001 by HRK 88,379 thousand and the gross profit by HRK 6,686 thousand for their operating period within the Podravka Group from April to December 2002.

Geographical analysis by destination

	Podravka Group			
	2002		2001	
	(in thousands of HRK)	%	(in thousands of HRK)	%
Croatia	1,520,846	55.4	1,414,381	55.8
South-East Europe	509,869	18.6	426,684	16.8
Central Europe	258,904	9.4	298,968	11.8
Czech Republic, Slovakia and Hungary	221,817	8.1	170,397	6.7
Eastern Europe	74,146	2.7	64,248	2.5
Western Europe and overseas	161,211	5.8	162,364	6.4
Total	2,746,793	100.0	2,537,042	100.0

South-East European market: Slovenia, Bosnia and Herzegovina, Serbia, Macedonia, Montenegro, Greece and Bulgaria,
 Central European market: Poland, Romania and the Baltic States,
 Eastern European market: Russia, the Ukraine, Belarus, Kazakhstan,
 Western European market and overseas: Australia, Germany, Austria, Switzerland, Sweden, Brasil, south-east Asia, Africa, USA.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

NOTE 4 – OTHER REVENUES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Recovered trade receivables previously written-off (i)	31,828	18,588	3,256	10,288
Insurance proceeds for damages	5,108	4,629	3,043	3,005
Sale of material	11,787	7,343	5,951	6,796
Interest receivables written-off	778	-	1,649	3,218
Statute barred liabilities written-off	3,714	-	3,714	4,558
Subsequent discounts from suppliers	17,346	3,056	2,889	2,401
Income from reversal of provisions	8,916	2,970	-	-
Other	17,067	15,806	3,105	2,117
Total	96,544	52,392	23,607	32,383

- (i) In 2002, Belupo d.d. recovered HRK 24,667 thousand receivables previously written off from the Croatian Health Insurance Institute (HZZO).

NOTE 5 – COST OF GOODS SOLD

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Material	1,093,652	1,000,986	624,337	597,494
Salaries	266,505	253,986	155,162	139,476
Depreciation	115,219	112,759	60,631	55,935
Other	129,178	123,136	69,021	63,310
Total	1,604,554	1,490,867	909,151	856,215

NOTE 6 – GENERAL AND ADMINISTRATIVE EXPENSES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries	130,849	120,884	90,779	90,505
Depreciation	42,886	36,341	26,479	26,406
Banking, consultancy and other services	31,275	28,143	24,520	22,954
Material	12,282	11,504	6,265	5,985
Write-off of intragroup interest receivable	-	-	3,638	1,902
Other	84,909	78,147	47,753	44,224
Total	302,201	275,019	199,434	191,976

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

NOTE 7 – SELLING AND DISTRIBUTION EXPENSES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Advertising and promotion	203,634	195,897	84,261	73,993
Salaries	215,615	180,635	113,348	91,557
Transport	53,530	46,994	23,035	20,055
Provisions	22,729	51,134	2,559	18,165
Maintenance	7,531	7,853	3,735	4,512
Depreciation	29,772	26,819	11,437	8,757
Material	38,023	21,792	13,425	9,985
Other	205,197	174,204	70,826	79,255
Total	776,031	705,328	322,626	306,279

NOTE 8 – NET FINANCIAL (EXPENSE)/INCOME

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Investments				
Income /i/	43,870	1,669	95,078	43,588
Expenses	(8,560)	(7,689)	(1,616)	(11,077)
Net income / (expense) from investments	35,310	(6,020)	93,462	32,511
Interest				
Income	10,375	13,209	29,562	35,806
Expense	(50,028)	(61,156)	(28,721)	(31,197)
Net interest income / (expense)	(39,653)	(47,947)	841	4,609
Total	(4,343)	(53,967)	94,303	37,120

/i/ Income from investments comprise the following:

- (1) In 2002, the subsidiaries' income in the amount of HRK 52,177 thousand (2001: HRK 41,374 thousand) was withdrawn from retained earnings,
- (2) By selling the ownership interest in Panonska pivovara d.o.o., Podravka d.d. recorded an income in the amount of HRK 41,592 thousand, and the Podravka Group recorded an income in the amount of HRK 42,304 thousand. Podravka Group sold its ownership interest in Elite d.o.o. recorded a loss in the amount of HRK 1,037 thousand (Note 17),
- (3) The difference between the carrying amount and the fair value of the property in Ljubljana is HRK 1,307 thousand and is stated as income from investments (Note 15).

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2002

NOTE 9 – STAFF COSTS

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries	612,968	555,505	359,288	321,538
Other	27,884	30,619	16,501	18,808
Total	640,852	586,124	375,789	340,346

Staff costs include salaries, severance payments, fees, awards, transportation costs and medical check-ups.

As at 31 December 2002, the number of employees in the Group was 7,488 (2001: 6,885) and in Podravka d.d. was 4,486 (2001: 4,365).

NOTE 10 – PROFIT TAX

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Corporate profit tax at 20 %	20,741	15,327	-	-
Overseas tax	3,981	4,888	-	-
Total	24,722	20,215	-	-

In accordance with the Croatian tax regulations, at the end of 2002 the Company and certain subsidiaries realised tax losses which expire as follows:

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
2001	-	150,449	-	58,274
2002	103,772	219,171	73,881	171,880
2003	20,457	20,457	-	-
2004	16,081	16,081	-	-
2005	114,338	112,362	109,219	109,219
2006	13,463	9,956	-	-
	268,111	528,476	183,100	339,373

NOTE 11 – EARNINGS AND DIVIDENDS PER SHARE

Basic earnings per share of HRK 16.76 (2001: HRK 7.83) has been calculated on the basis of the net earnings of the Podravka Group less total dividend on preferred shares in the amount of HRK 87,898 thousand (2001: HRK 41,486 thousand) and the weighted average number of ordinary shares in issue of 5,244,913 less treasury shares (2001: 5,300,454).

Diluted earnings per share of HRK 18.23 (2001: HRK 10.41) has been calculated on the same basis as basic earnings per share and additionally taking into consideration the impact of the number of preferred shares that may be converted into ordinary shares in the amount of 636,000 and taking into consideration the impact of the assumed conversion of the employee share options of 70,252 which were eligible during the year but remain unexercised.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

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NOTE 12 – INVESTMENTS IN SUBSIDIARIES

	Holding in %	Podravka d.d.	
		2002	2001
		<i>(in thousands of HRK)</i>	
Belupo d.d., Koprivnica	100.00	157,830	157,830
- Belupo d.o.o. Ljubljana (subsidiary)		-	-
Koprivnička Tiskarnica d.o.o., Koprivnica	100.00	14,142	14,142
Danica d.o.o., Koprivnica	100.00	92,311	92,311
Podravka Inženjering d.o.o., Koprivnica	100.00	20	20
Poni trgovina d.o.o., Koprivnica	100.00	20	20
Hotel Podravina d.o.o., Koprivnica	100.00	9,684	9,684
Ital-Ice d.o.o., Poreč /i/	100.00	47,425	-
Sana d.o.o., Hoče, Slovenia	100.00	217	217
Podravka d.o.o., Ljubljana, Slovenia /ii/	100.00	1,925	74
Podravka d.o.o., Skopje, Macedonia	100.00	42	42
Podravka d.o.o., Sarajevo, Bosnia and Herzegovina	100.00	40	40
Podravka d.o.o., Podgorica, Serbia and Montenegro /iii/	100.00	1,029	-
Podravka-International Deutschland –“Konar” GmbH, Germany	100.00	1,068	1,068
- Podravka d.o.o. Belgrade (subsidiary)		-	-
Podravka-International Kft, Budapest, Hungary	100.00	5,343	5,343
Podravka-International e.o.o.d., Sofia, Bulgaria	100.00	10	10
Podravka-International Pty Ltd, Sydney, Australia	100.00	426	426
Podravka-International Sp.z o.o., Warsaw, Poland	100.00	277	277
Podravka-Polska Sp.z o.o., Kostrzyn, Poland	100.00	49,440	49,440
Podravka-International s.r.l., Bucharest, Romania	100.00	84	84
Lagris a.s., Lhota u Luhačovic, Czech Republic /iv/	100.00	68,754	-
Lagris s.r.o., Zvolen, Slovakia /v/	75.00	996	-
Podravka-International s.r.o., Bratislava, Slovakia	50.00	18	18
- Podravka-International s.r.o. Prague (subsidiary)		-	-
		451,101	331,046

- /i/ In April 2002, 100% interest in Ital-Ice d.o.o. Poreč was bought in the amount of HRK 47,425 thousand or EUR 6,442,278. In 2002, the amount of HRK 37,094 thousand was paid and the difference of HRK 10,331 thousand is due in 2003 and is stated within Other liabilities in Note 24.
- /ii/ In August 2002, according to the decision of the Company's Management, an equity investment in Podravka d.o.o., Ljubljana has been increased by transfer of properties in the estimated amount of HRK 1,851 thousand (Note 15).
- /iii/ In June 2002, the subsidiary of Podravka d.o.o. in Podgorica, Montenegro has been founded with a share capital of EUR 140,000 or HRK 1,029 thousand.
- /iv/ In October 2002, the 100% interest in Lagris a.s., Lhota in Luhačovic in the Czech Republic in the amount of EUR 9,367 thousand or HRK 68,754 thousand has been purchased. According to the acquisition agreement in 2002, EUR 9,075,200 has been paid to the previous owners of Lagris. The remaining amount of EUR 291,800 or HRK 2,171 thousand is due in 2003 and is stated within Other liabilities in Note 24.
- /v/ In November 2002, 75% of Lagris s.r.o. Zvolen in Slovakia has been acquired for the amount of EUR 133 thousand or HRK 996 thousand. The remaining 25% interest in Lagris s.r.o. Zvolen has been acquired through Lagris a.s., Lhota in Luhačovic in the Czech Republic.

NOTE 13 – LONG-TERM LOAN RECEIVABLES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Flats and sale of flats on credit	4,505	4,733	4,505	4,720
Due from associated companies /i/	-	-	299,290	344,857
Other loans /ii/	105,924	20,486	95,195	11,129
Total long-term receivables, including current portion	110,429	25,219	398,990	360,706
Current portion of long-term receivables	(4,078)	(3,940)	(91,855)	(69,833)
Total long-term receivables	106,351	21,279	307,135	290,873

/i/ Receivables from associated companies include long-term loans granted to:

- Belupo d.d., Koprivnica in the amount of HRK 159,218 thousand (2001: HRK 211,608 thousand), interest 6%, maturity 5 years;
- Danica d.o.o., Koprivnica in the amount of HRK 113,493 thousand (2001: HRK 127,249 thousand), the average interest rate on borrowings for working capital of Podravka d.d., maturity 10 years;
- Podravka-International sp.z.o.o., Warsaw of HRK 21,779 thousand, interest monthly LIBOR+3%, 18 months prolongation;
- Poni d.o.o., Koprivnica in the amount of HRK 4,800 thousand (2001: HRK 6,000 thousand), interest 6%, maturity 5 years;

/ii/ This item refers to a 2-year foreign time deposit at Privredna banka Zagreb d.d. in the amount of EUR 11,568,466 or HRK 86,096 thousand. The interest rate is fixed and amounts to 3.95% annually. The interest is added to the principal.

NOTE 14 – INTANGIBLE ASSETS

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Cost				
At 1 January	99,485	89,158	67,258	64,852
Effect of changes in foreign exchange rates	(2,583)	1,115	-	-
Additions /i/	87,994	9,698	86,108	2,407
Acquisition of subsidiaries /ii/	10,101	-	-	-
Goodwill /iii/	52,460	-	-	-
Disposals	(1,505)	(486)	(78)	(1)
At the end of period	245,952	99,485	153,288	67,258
Accumulated amortisation				
At 1 January	(29,719)	(12,114)	(19,620)	(7,207)
Effect of changes in foreign exchange rates	327	(145)	-	-
Additions	-	(1,287)	-	-
Acquisition of subsidiaries /ii/	(1,801)	-	-	-
Amortisation charge /iv/	(20,928)	(16,659)	(13,564)	(12,414)
Disposals	1,365	486	78	1
At end of period	(50,756)	(29,719)	(33,106)	(19,620)
Net book value	195,196	69,766	120,182	47,638

/i/ In 2002, intangible assets were increased by the paid advance for using the right to distribute Nestle products on specific markets in the amount of EUR 9,179,077 or HRK 67,694 thousand. This right becomes effective from January 2003.

/ii/ Intangible assets costing HRK 10,101 thousand with an amortisation of HRK 1,801 thousand were acquired through the purchase of subsidiaries (Note 29).

/iii/ A part of the intangible assets in the amount of HRK 9,038 thousand refers to goodwill arising from the acquisition of the subsidiary Ital-Ice d.o.o. Poreč. The acquisition cost amounted to HRK 47,425 thousand or EUR 6,442,278, while the acquired fair value of the net assets amounted to HRK 38,387 thousand (Note 29). The stated goodwill amount will be amortised on a straight-line basis over a period of 5 years.

In October and November 2002, the firms Lagris a.s., Lhota in Luhačovic, Czech Republic and Lagris s.r.o., Zvolen, Slovakia were acquired for a total amount of HRK 69,759 thousand, while the acquired fair value of net assets amounted to HRK 26,328 thousand (Note 29). The difference between the acquisition cost and the fair value of net assets in the amount of HRK 43,422 thousand represents goodwill amortised on a straight-line basis over a period of 5 years.

/iv/ The total calculated amortisation includes:

- amortisation of intangible assets	HRK 18,257 thousand
- amortisation of goodwill	HRK 2,671 thousand

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NOTE 15 – TANGIBLE FIXED ASSETS

The cost of tangible fixed assets of the Podravka Group together with the related accumulated depreciation at 31 December 2001 and 2002 are presented below:

Podravka Group <i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets in course of construction	Total
2001				
Cost				
At 1 January 2001	1,749,895	1,259,129	14,904	3,023,928
Effect of foreign exchange rate movements	5,821	6,781	192	12,794
Additions	22	6,564	53,956	60,542
Transfer	4,421	36,044	(40,465)	-
Disposals and retirements	(48,364)	(86,879)	(110)	(135,353)
Value adjustment /i/	(7,864)	-	-	(7,864)
At 31 December 2001	1,703,931	1,221,639	28,477	2,954,047
Accumulated depreciation				
At 1 January 2001	499,132	696,373	-	1,195,505
Effect of foreign exchange rate movements	215	4,023	-	4,238
Additions /ii/	10,230	25,267	-	35,497
Charge for the year	57,597	106,412	-	164,009
Disposals	(16,608)	(72,692)	-	(89,300)
At 31 December 2001	550,566	759,383	-	1,309,949
Net book value at 31 December 2001	1,153,365	462,256	28,477	1,644,098
At 31 December 2002				
Cost				
At 1 January 2002	1,703,931	1,221,639	28,477	2,954,047
Effect of foreign exchange rate movements	(9,574)	(7,874)	14	(17,434)
Additions /iii/	1,346	15,156	208,517	225,019
Acquisition of subsidiaries /iv/	58,722	48,268	250	107,240
Transfer	9,765	135,405	(145,170)	-
Disposals and retirements	(3,353)	(54,721)	-	(58,074)
At 31 December 2002	1,760,837	1,357,873	92,088	3,210,798
Accumulated depreciation				
At 1 January 2002	550,566	759,383	-	1,309,949
Effect of foreign exchange rate movements	(513)	(2,223)	-	(2,736)
Acquisition of subsidiaries /iv/	9,406	32,460	-	41,866
Depreciation charge for the period	57,106	109,842	-	166,948
Disposals	(137)	(49,952)	-	(50,089)
At 31 December 2002	616,428	849,510	-	1,465,938
Net book value at 31 December 2002	1,144,409	508,363	92,088	1,744,860

NOTE 15 – TANGIBLE FIXED ASSETS (continued)

- /i/ The impairment charge for buildings belonging to subsidiary Hotel Podravina was calculated on the expected recoverable amount in the amount of HRK 7,864 thousand. Other operating expenses increased by the same amount and are recognised under 'General and administrative expenses' in 2001.
- /ii/ In 2001, an increase in accumulated depreciation of HRK 35,497 thousand relates to the difference which occurred in the period between 1997 and 2000 as a result of using different accounting policies for recording useful life of these in the financial statements of the subsidiary Belupo d.o.o. and in the financial statements of the Group. This difference was reduced by the amount of deferred tax liability in the amount of HRK 5,226 thousand and increased by the amount of HRK 1,287 thousand of accumulated depreciation of intangible assets (Note 14), and stated as a part of decrease of retained earnings (Note 26).
- /iii/ In 2002, the most significant increase in tangible fixed assets refer to investments in:
- the factory Studenac Lipik in the amount of HRK 56.8 million,
 - food factory in the amount of HRK 22.1 million,
 - IT and telecom equipment in the amount of HRK 17.6 million,
 - a printing machine for the printing plant of Koprivnica in the amount of HRK 10.4 million,
 - a production line for pills and other equipment for Belupo in the amount of HRK 32.1 million,
 - equipment for the production of meat products in the amount of HRK 6.3 million,
 - other production equipment for approximately HRK 10.0 million,
 - transportation vehicles for approximately HRK 7.1 million, and
 - properties for approximately HRK 25.4 million.
- /iv/ By acquiring subsidiaries in 2002, a net value of tangible fixed assets in the amount of HRK 65,374 thousand was acquired, HRK 35,107 thousand of which refer to the net value of tangible fixed assets of the company Ital-Ice d.o.o. and HRK 30,267 thousand to the net value of tangible fixed assets of the Lagris group (Note 29).
- /v/ Group buildings and land worth HRK 558,697 thousand (2001: HRK 439,020 thousand) have been mortgaged against the Group's borrowings (Note 22).

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NOTE 15 – TANGIBLE FIXED ASSETS (continued)

The cost of tangible fixed assets of Podravka d.d. together with the related accumulated depreciation at 31 December 2001 and 2002 are presented below:

Podravka d.d. <i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets in course of construction	Total
2001				
Cost				
At 1 January 2001	1,093,794	701,748	4,795	1,800,337
Additions	-	620	35,595	36,215
Transfer from assets in course of construction	1,106	20,444	(21,550)	-
Disposals and retirements /i/	(48,364)	(69,334)	(1,698)	(119,396)
Amount brought forward from subsidiaries	-	1,793	-	1,793
At 31 December 2001	1,046,536	655,271	17,142	1,718,949
Accumulated depreciation				
At 1 January 2001	316,666	426,278	-	742,944
Charge for the year	35,247	48,186	-	83,433
Disposals and retirements /i/	(16,608)	(56,777)	-	(73,385)
Amount brought forward from subsidiaries	-	1,569	-	1,569
At 31 December 2001	335,305	419,256	-	754,561
Net book value at 31 December 2001	711,231	236,015	17,142	964,388
2002				
Cost				
At 1 January 2002	1,046,536	655,271	17,142	1,718,949
Additions /ii/	1,307	5	147,189	148,501
Transfer from assets in course of construction	8,458	85,439	(93,897)	-
Disposals and retirements	(3,016)	(34,826)	-	(37,842)
Transfer to subsidiaries /iii/	(1,968)	(956)	-	(2,924)
At 31 December 2002	1,051,317	704,933	70,434	1,826,684
Accumulated depreciation				
At 1 January 2002	335,305	419,256	-	754,561
Charge for the period	33,922	51,061	-	84,983
Disposals and retirements	(82)	(34,219)	-	(34,301)
Transfer to subsidiaries /iii/	(117)	(411)	-	(528)
At 31 December 2002	369,028	435,687	-	804,715
Net book value at 31 December 2002	682,289	269,246	70,434	1,021,969

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FOR THE YEAR ENDED 31 DECEMBER 2002

NOTE 15 – TANGIBLE FIXED ASSETS (continued)

- /i/ In 2001, land, buildings and equipment for yeast production and the holiday home in Pirovac were sold for the amount of HRK 42,485 thousand. The book value of the sold assets was HRK 42,607 thousand. The loss on sale amounted to HRK 122 thousand.
- /ii/ In 2002, the interest in Panonska pivovara was sold and a property fair value in the amount of HRK 18.0 million was acquired.
- /iii/ In 2002, a property worth HRK 1,851 thousand has been transferred into the ownership of Podravka Ljubljana (Note 12). The book value of the property originally amounted to HRK 544 thousand. Before the transfer an independent estimation of the property value was performed and according to that an increase in the property value and the income from investments in the amount of HRK 1,307 thousand was recorded (Note 8).
- /iv/ Company buildings and land worth HRK 382,192 thousand (2001: HRK 303,198 thousand) have been mortgaged against the Company's borrowings.

NOTE 16 – INVENTORIES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Raw material and supplies	212,487	189,105	122,374	111,204
Work in progress	67,261	59,672	48,907	43,612
Finished goods	162,327	146,946	86,979	83,955
Merchandise	155,035	76,307	30,557	18,883
Total	597,110	472,030	288,817	257,654

PODRAVKA GROUP

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NOTE 17 – AVAILABLE-FOR-SALE INVESTMENTS

	Holding in %	Podravka Group		Podravka d.d.	
		2002	2001	2002	2001
		<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Panonska pivovara d.o.o., Koprivnica /i/	40.00	-	70,207	-	63,973
Elite Hrvatska d.o.o., Koprivnica /i/	20.00	-	1,434	-	1,434
Investments in equity instruments		7,777	4,859	6,542	4,859
Other		120	-	-	-
Total investments		7,897	76,500	6,542	70,266

/i/ In May 2002, the ownership interest in Panonska pivovara d.o.o. was sold for the amount of HRK 105,565 thousand as well as the ownership interest in Elite d.o.o. for the amount of HRK 379 thousand. From these transactions, a net income from investments was realised as disclosed in Note 8.

NOTE 18 – TRADE RECEIVABLES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Trade receivables	776,713	767,657	188,694	222,365
Provisions	(155,919)	(188,926)	(83,512)	(98,877)
Net trade receivables	620,794	578,731	105,182	123,488
Due from associated companies	-	-	208,183	144,427
Prepayments	9,356	2,449	540	1,305
Total	630,150	581,180	313,905	269,220

NOTE 19 – OTHER RECEIVABLES AND PREPAID EXPENSES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Receivables for retained earnings from affiliated companies /i/	-	-	49,116	41,954
Other receivables from affiliated companies /ii/	-	-	38,457	33,494
Other receivables from non-affiliated companies /iii/	5,330	3,887	5,146	3,509
Tax receivable /iv/	22,678	21,557	2,125	1,697
Other	37,645	14,853	19,818	4,705
Total	65,653	40,297	114,662	85,359

/i/ According to the Management Board decisions in 2002, the Company recorded receivables for withdrawal of retained earnings from Belupo d.d. in the amount of HRK 25,000 thousand and from Podravka Poland Kostrzyn in the amount of HRK 24,116 thousand.

/ii/ Due unpaid receivables from long-term receivables of subsidiaries in the amount of HRK 22,104 thousand and receivables from interest due in the amount of HRK 16,353 thousand, HRK 36,812 thousand of which refers to Belupo d.d.

/iii/ Due unpaid receivables and interest from long-term loans of non-affiliated companies.

/iv/ Tax receivable relates to value added tax prepayments.

NOTE 20 – SHORT-TERM LOAN RECEIVABLES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Short-term loans to subsidiary - Podravka-International Sp.z o.o., Warsaw, Poland	-	-	16,435	44,687
Poni trgovina d.o.o. Koprivnica	-	-	26,478	-
Podravka d.o.o. Belgrade	-	-	3,721	-
Other	9,651	4,772	-	-
Total	9,651	4,772	46,634	44,687

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NOTE 21 – CASH AND CASH EQUIVALENTS

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Cash with banks	93,408	65,106	49,461	28,781
Cheques received	175	297	61	95
Bills received	16,843	6,705	16,513	6,675
Deposits	42	85	26	26
Total	110,468	72,193	66,061	35,577

NOTE 22 – LONG-TERM DEBT

	Interest rate	2002	2001
		(in thousands of HRK)	
Podravka d.d.			
Repayment due in 2002	4.72%-7.50%	-	94,480
Repayment due in 2003	4.72%-7.50%	89,785	57,424
Repayment due in 2004	4.72%-7.35%	101,528	53,813
Repayment due in 2005	4.72%-7.35%	88,888	41,289
Repayment due in 2006	4.72%-7.35%	78,255	20,166
Repayment due in 2007 and thereafter	4.72%-7.35%	98,564	5,570
Total long-term debt		457,020	272,742
Current portion of long-term debt		(89,785)	(94,480)
Total long-term debt excluding current portion		367,235	178,262
Podravka Group			
Repayment due in 2002	4.11%-12.70%		176,870
Repayment due in 2003	4.11%-12.70%	159,139	115,810
Repayment due in 2004	4.72%-12.70%	160,790	90,968
Repayment due in 2005	4.72%-12.70%	133,056	64,214
Repayment due in 2006	4.72%-9.20%	99,561	34,443
Repayment due in 2007 and thereafter	4.72%-6.68%	102,709	5,570
Total long-term debt		655,255	487,875
Current portion of long-term debt		(159,139)	(176,870)
Total long-term debt excluding current portion		496,116	311,005

NOTE 22 – LONG-TERM DEBT (continued)

The increase of liabilities from long-term debt mainly refer to granted loans from:

- Bank Austria, Vienna in the amount of EUR 15,000,000 i.e. HRK 111,851 thousand, with an interest rate based on 6 monthly EURIBOR+1.75%. The loan is repayable in 9 equal half-year instalments, the first of which is due on 30 June 2003 and the last one on 30 June 2007.
- Krones AG, Germany for the purchase of a production line for filling mineral water in the amount of EUR 3,617,500 with an annual interest rate of 6.6%. 10% of the settled amount was repaid by the end of February 2002 and the rest is repayable in 10 equal half-year instalments, the first of which was due on 30 November 2002, and the last one on 30 May 2007.
- Raiffeisen Bank Austria for financing new acquisitions in the amount of EUR 10,000,000, EUR 9,500,000 or HRK 69,602 thousand of which was used. The interest rate amounts to 6 monthly EURIBOR + 1.50%. The loan is repayable in 10 equal half-year instalments, the first of which is due in March 2004. The last instalment is due in 2008.
- HBOR as a part of the programme for granting credits for the development of economic activities in the amount of EUR 10,913,000, EUR 6,270,000 or HRK 46,835 thousand of which were used. The interest rate is 5.5% p.a. The loan repayment starts at the end of 2005. The last instalment is due in 2013.

The majority of long-term debt carry variable interest rates based on EURIBOR, WIBOR, BUBOR, PRIBOR and TOM. The interest rates included in the table above have been calculated as at 31 December 2002. The total insured loans of Podravka d.d. and the Group amount to HRK 380,446 thousand (2001: HRK 187,492 thousand) and HRK 551,239 thousand (2001: HRK 401,176 thousand) respectively.

NOTE 23 – TRADE PAYABLES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Trade payables	430,545	338,816	200,070	164,214
Due to associated companies	-	-	44,365	51,681
Total	430,545	338,816	244,435	215,895

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NOTE 24 – OTHER LIABILITIES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries and other payments to employees	55,386	47,238	32,140	30,166
Dividend payable	123	124	123	124
Interest payable on borrowings	7,687	8,744	5,919	5,755
Taxes and contributions payable	33,817	30,773	14,448	11,809
Interest payable (Note 12)	12,502	-	12,502	-
Other payables	27,046	22,305	8,858	8,414
Total	136,561	109,184	73,990	56,268

NOTE 25 – SHORT-TERM BORROWINGS

NOTE 25 - SHORT TERM BORROWINGS

	Interest rate/yield	2002	2001
		<i>(in thousands of HRK)</i>	
Podravka d.d.			
Commercial papers /i/	2.83%-3.80%	110,000	-
Banks	5.86%-8.00%	-	27,619
Other	4.50%	938	7,505
Total		110,938	35,124
Podravka Group			
Commercial papers /i/	2.83%-3.80%	110,000	-
Banks	4.94%-13.50%	114,865	103,125
Other	4.50%	4,680	7,505
Total		229,545	110,630

/i/ In March 2002, a contract on issuing commercial papers by Privredna banka Zagreb d.d., Zagreb was executed in the amount of HRK 150 million in five annual programmes.

During 2002, HRK 162 million of commercial papers were issued, HRK 52 million of which were realised in the same year. The net yield on issued commercial papers is 2.83%-3,80%. The maturity of issued papers is from 91 to 182 days.

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NOTE 26 – SHAREHOLDERS' EQUITY

/i/ As at 31 December 2002, the share capital amounts to HRK 1,812,808,800, and consists of 6,042,696 shares, with a nominal value of HRK 300 each. These shares are comprised as follows:

- 5,406,696 are ordinary shares, amounting in total to HRK 1,622,008,800, and
- 636,000 are preferred shares, amounting in total to HRK 190,800,000.

In 1993, the subscribed share capital was stated in the equivalent amount of DEM 523,524,700, consisting of 5,235,247 shares, with a nominal value of DEM 100 each (or HRK 380.18 each as translated using the exchange rate in effect on the date of initial registration). In 1996, the nominal value per share was reduced to HRK 300. As at 31 December 1996, such reduced subscribed share capital of Podravka d.d. amounted to HRK 1,570,574,100, and other reserves of the Company were increased by the amount of decrease in the share capital (HRK 419,762,100).

During 1997, 171,449 ordinary shares were issued, with a nominal value of HRK 300 per share, representing an additional share capital in the amount of HRK 51,434,700. These shares were sold at HRK 370 each, which resulted in a total share premium in the amount of HRK 12,001,430.

In 1998, the share capital was increased by an additional amount of HRK 111,900,000 by issuance of 373,000 A series preferred shares. In 1999, the share capital was increased by HRK 78,900,000 by issuance of 263,000 B series preferred shares. The nominal value of A and B series shares is HRK 300 each. The preferred shareholder is the European Bank for Reconstruction and Development (the EBRD). The agreements reached with the EBRD pursuant to the contract on subscription of shares are as follows:

- For the first three years, the dividend per preferred share amounts to DEM 6.00 per share, and thereafter to DEM 8.50 per share,
- Within five years from the subscription of the preferred shares, the Bank may convert them into ordinary shares at a price of one preferred share for one ordinary share,
- The Bank may require from the Company to redeem all of the Bank's preferred shares if conditions for an accelerated redemption are created,
- If the Bank wishes to sell the preferred shares, such sale should first be offered to the Company,
- In case of inability to sell or transfer the preferred shares due to liquidation of the Company, the Company shall pay the Bank the price of the shares offered,
- The Company is to adhere to certain financial conditions, such as: certain current liquidity ratios, profitability ratios and net value of tangible assets.

/ii/ The principal shareholders and their respective holdings are as follows:

	2002		2001	
	Number of shares	%	Number of shares	%
Ordinary shares				
Shareholders – legal entities	2,536,163	41.97	2,460,931	40.73
Shareholders – individuals	1,926,183	31.88	2,045,219	33.85
Croatian Privatisation Fund	784,097	12.97	738,880	12.22
Treasury shares	160,253	2.65	161,666	2.67
Total	5,406,696	89.47	5,406,696	89.47
Preferred shares				
EBRD	636,000	10.53	636,000	10.53
Total	6,042,696	100.00	6,042,696	100.00

NOTE 26 – SHAREHOLDERS' EQUITY (continued)

/iii/ The realised dividend for preferential shares in 2001 amounted to EUR 2,766,600 or HRK 20,420 thousand (2000: DEM 4,041,250 or HRK 14,822 thousand), and was paid to EBRD in July 2002. As a result of paying dividends to EBRD, the total retained earnings were reduced by HRK 15,722 thousand and other reserves by HRK 4,689 thousand.

/iv/ The legal reserve is required under Croatian law and must be built up to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the Company's share capital. This reserve is not distributable.

In 2002, an amount of HRK 871 thousand (2001: HRK 1,459 thousand) was transferred to legal reserves. This amount refers to realised profit in 2001. HRK 828 thousand were transferred to other reserves (2001: HRK 1,387 thousand) in accordance with the Company's Statute.

/v/ In 2002, 237 (2001: 95,577) treasury shares at the total cost of HRK 71 thousand (2001: HRK 16,489 thousand) were purchased. In 2002, 1,650 treasury shares were sold for the amount of HRK 312 thousand.

/vi/ Retained earnings of the Group from previous periods was reduced in 2001 by the amount of HRK 68,811,000 as follows:

- the amount of HRK 31,558,000 is the result of applying different accounting policies in recording the expected useful life of tangible and intangible fixed assets in the financial statements of the subsidiary Belupo d.o.o. and the financial statements of this subsidiary stated within the Group, which previously resulted in overstating Group profits.
- the amount of HRK 6,879,000 relates to a decrease in investment by the corresponding portion of the accumulated loss of the related company, Panonska pivovara d.o.o., which was incurred in the previous period

Retained earnings of HRK 30,374,000 was reduced by deferred tax assets recorded in 1998.

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NOTE 27 – MANAGEMENT BENEFITS

In 2002, benefits paid to members of the Management Board and the Supervisory Board amounted to HRK 4,195 thousand (2001: HRK 4,188 thousand) and HRK 1,360 thousand (2001: HRK 1,297 thousand), respectively.

NOTE 28 – MINORITY INTERESTS

	<u>2002</u>	<u>2001</u>
	<i>(in thousands of HRK)</i>	
At 1 January	495	433
Share of net profit for the year	55	62
Total	<u>550</u>	<u>495</u>

NOTE 29 – ACQUISITION OF SUBSIDIARIES

<i>(in thousands of HRK)</i>	Ital-Ice Poreč	Lagris, Czech Republic and Slovakia	Total
	<u> </u>	<u> </u>	<u> </u>
Fixed assets	35,133	38,668	73,801
Current assets	16,970	55,167	72,137
Cash and cash equivalents	314	3,971	4,285
Non-current liabilities	(6,419)	(2,896)	(9,315)
Current liabilities	(7,611)	(68,582)	(76,193)
Goodwill	9,038	43,422	52,460
Total acquisition cost	47,425	69,750	117,175
Less:			
Interest payable	(10,331)	(2,171)	(12,502)
Cash acquired by purchase of interest	(314)	(3,971)	(4,285)
Cash outflow	36,780	63,608	100,388

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NOTE 30 – COMMITMENTS

In 2002, the purchase costs of tangible fixed assets contracted with suppliers were HRK 129,019 thousand for the Group and HRK 89,608 thousand for the Company (2001: HRK 26,710 thousand for the Group and HRK 4,657 thousand for the Company), which are not yet realised or recognised in the balance sheet as at 31 December 2002 i.e. 2001.

NOTE 31 – CONTINGENCIES

	Podravka Group		Podravka d.d.	
	2002	2001	2002	2001
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Legal proceedings	37,373	-	10,719	-
Guarantees for borrowings	527,378	371,008	358,045	326,536
Total	564,751	371,008	368,764	326,536

The stated contingencies have not been recognised in the balance sheet as at 31 December.

NOTE 32 – POST BALANCE SHEET EVENT

Following approval of the financial statements by the General Assembly, based on the subscription contract for preferred shares with EBRD, the dividend for 2002 will amount to EUR 4.35 per share and the total amount of dividend will be EUR 2,766,600 i.e. HRK 20,590 thousand.