

PODRAVKA GROUP

**CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2003**

REPORT OF THE AUDITORS 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 2003, and the related income and cash flow statements for the year then ended. These financial statements set out on pages 2 to 35 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 2003, 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, 13 April 2004

PODRAVKA GROUP

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

<i>(in thousands of HRK)</i>	Note	Podravka Group		Podravka d.d.	
		2003	2002	2003	2002
Sales	3	3,217,662	2,746,793	1,531,741	1,404,998
Cost of goods sold	5	(1,968,469)	(1,575,421)	(967,719)	(900,311)
Gross profit		1,249,193	1,171,372	564,022	504,687
Other revenues	4	31,332	58,495	17,237	14,767
General and administrative expenses	6	(341,614)	(302,201)	(208,220)	(199,434)
Selling and distribution costs	7	(826,929)	(767,115)	(380,607)	(322,626)
Operating profit/(loss)		111,982	160,551	(7,568)	(2,606)
Net financial (expense)/income	8	(39,782)	(4,343)	5,226	94,303
Net foreign exchange losses		(38,413)	(22,943)	(18,004)	(15,550)
Profit/(loss) before tax		33,787	133,265	(20,346)	76,147
Profit tax expense	10	(23,784)	(24,722)	-	-
Net profit/(loss)		10,003	108,543	(20,346)	76,147
Minority interest		(45)	(55)	-	-
Net profit/(loss)		9,958	108,488	(20,346)	76,147
Earnings/(loss) per share					
- Basic	11	HRK -0.16	HRK 16.76		
- Diluted	11	HRK 1.78	HRK 18.23		

The financial statements set out on pages 2 to 35 were approved by the Management Board on 13 April 2004.

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 2003

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Podravka Group</u>		<u>Podravka d.d.</u>	
		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
ASSETS					
Non-current assets					
Investments in subsidiaries	12	-	-	428,965	451,101
Receivables	13	14,729	106,351	238,831	307,135
Intangible assets	14	156,969	195,196	96,302	120,182
Property, plant and equipment	15	1,800,330	1,744,860	1,087,990	1,021,969
Total non-current assets		1,972,028	2,046,407	1,852,088	1,900,387
Current assets					
Inventories	16	610,314	597,110	283,504	288,817
Available-for-sale investments	17	15,882	7,897	14,655	6,542
Trade receivables	18	673,190	630,150	350,227	313,905
Other receivables and prepaid expenses	19	76,633	65,653	52,743	114,662
Current portion of long-term loan receivables	13	2,739	4,078	82,412	91,855
Short-term loan receivables	20	3,643	9,651	11,642	46,634
Cash and cash equivalents	21	139,603	110,468	67,855	66,061
Total current assets		1,522,004	1,425,007	863,038	928,476
Total assets		3,494,032	3,471,414	2,715,126	2,828,863

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

PODRAVKA GROUP

BALANCE SHEET

AS AT 31 DECEMBER 2003

<i>(in thousands of HRK)</i>	<u>Note</u>	<u>Podravka Group</u>		<u>Podravka d.d.</u>	
		<u>2003</u>	<u>2002</u>	<u>2003</u>	<u>2002</u>
LIABILITIES					
Non-current liabilities					
Long-term debt	22	501,459	496,116	363,345	367,235
Total non-current liabilities		501,459	496,116	363,345	367,235
Current liabilities					
Trade payables	23	462,909	430,545	217,406	244,435
Other liabilities	24	113,033	136,561	65,982	73,990
Short-term borrowings	25	479,484	229,545	288,911	110,938
Current portion of long-term debt	22	157,046	159,139	104,141	89,785
Total current liabilities		1,212,472	955,790	676,440	519,148
Total liabilities		1,713,931	1,451,906	1,039,785	886,383
Shareholders' equity					
Share capital		1,623,121	1,812,809	1,623,121	1,812,809
Share premium		12,001	12,001	12,001	12,001
Treasury shares		(35,502)	(30,730)	(35,502)	(30,730)
Revaluation reserve		39,992	39,992	39,286	39,286
Legal and other reserves		72,397	35,610	40,391	32,967
Foreign currency translation reserve		(7,627)	(5,010)	-	-
Retained earnings		75,124	154,286	(3,956)	76,147
Total shareholders' equity	26	1,779,506	2,018,958	1,675,341	1,942,480
Minority interest	28	595	550	-	-
Total liabilities		3,494,032	3,471,414	2,715,126	2,828,863

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

PODRAVKA GROUP

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

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 2002	26 /i/	1,812,809	12,001	(30,971)	39,992	38,459	63,369	3,396	1,939,055
Transfer to legal reserves	26 /viii/	-	-	-	-	1,849	(1,849)	-	-
Purchase of treasury shares	26 /viii/	-	-	(71)	-	-	-	-	(71)
Sale of treasury shares	26 /viii/	-	-	312	-	-	-	-	312
Dividend declared	26 /v/	-	-	-	-	(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
Balance at 1 January 2003	26 /i/	1,812,809	12,001	(30,730)	39,992	35,610	154,286	(5,010)	2,018,958
Transfer to legal reserves	26 /viii/	-	-	-	-	36,787	(36,787)	-	-
Purchase of treasury shares	26 /viii/	-	-	(196,561)	-	-	-	-	(196,561)
Sale of treasury shares	26 /viii/	-	-	989	-	-	-	-	989
New issue of shares	26 /iii/	1,112	-	-	-	-	-	-	1,112
Dividend declared	26 /v/, /vi/	-	-	-	-	-	(52,333)	-	(52,333)
Decrease in capital	26 /iv/	(190,800)	-	190,800	-	-	-	-	-
Net profit for the year		-	-	-	-	-	9,958	-	9,958
Exchange differences		-	-	-	-	-	-	(2,617)	(2,617)
Balance at 31 December 2003	26 /i/, /iii/	1,623,121	12,001	(35,502)	39,992	72,397	75,124	(7,627)	1,779,506

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

PODRAVKA GROUP

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2003

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 2002	26 /i/	1,812,809	12,001	(30,971)	39,286	35,966	17,421	1,886,512
Transfer to legal reserves	26 /vii/	-	-	-	-	1,699	(1,699)	-
Purchase of treasury shares	26 /viii/	-	-	(71)	-	-	-	(71)
Sale of treasury shares	26 /viii/	-	-	312	-	-	-	312
Dividend declared	26 /v/	-	-	-	-	(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
Balance at 1 January 2003	26 /i/	1,812,809	12,001	(30,730)	39,286	32,967	76,147	1,942,480
Transfer to legal reserves	26 /vii/	-	-	-	-	7,424	(7,424)	-
Purchase of treasury shares	26 /viii/	-	-	(196,561)	-	-	-	(196,561)
Sale of treasury shares	26 /viii/	-	-	989	-	-	-	989
New issue of shares	26 /iii/	1,112	-	-	-	-	-	1,112
Dividend declared	26 /v/, /vi/	-	-	-	-	-	(52,333)	(52,333)
Decrease in capital	26 /iv/	(190,800)	-	190,800	-	-	-	-
Net loss for the year		-	-	-	-	-	(20,346)	(20,346)
Balance at 31 December 2003	26 /i/, /ii/	1,623,121	12,001	(35,502)	39,286	40,391	(3,956)	1,675,341

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

PODRAVKA GROUP

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2003

<i>(in thousands of HRK)</i>	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
Cash flows from operating activities				
Net profit	9,958	108,488	(20,346)	76,147
Depreciation	224,796	187,876	121,251	98,547
Value adjustment of current assets	46,677	28,060	58,806	3,624
Value adjustment of investments	-	5,637	12,486	(1,851)
Loss / (profit) from the sale of investments	573	(41,265)	3,284	(40,555)
Effect of changes in foreign exchange rates	24,635	2,893	19,743	5,817
Other non-cash items	6,672	(1,335)	(21,904)	6,055
	313,311	290,354	173,320	147,784
Changes in inventories	(22,933)	(104,760)	388	(31,700)
Changes in trade receivables	(77,171)	(35,052)	(47,655)	(47,244)
Changes in other current assets	(9,139)	(24,260)	36,470	(26,347)
Changes in trade payables	33,592	55,845	(27,029)	28,540
Changes in other liabilities	48,851	76,415	12,610	26,231
Tax paid	(31,822)	(23,792)	-	-
Interest paid	(37,296)	(41,538)	(21,709)	(21,011)
	217,393	193,212	126,395	76,253
Cash flows from investing activities				
Acquisition of subsidiary, net of cash acquired	-	(100,388)	(34)	(105,702)
Sale of shares and equity interest	6,275	87,962	6,400	87,962
Purchase of tangible and intangible assets	(272,296)	(293,706)	(170,144)	(217,347)
Disposal of tangible and intangible assets	5,129	8,125	4,077	4,824
Long-term loans given and deposits	(11)	(88,755)	(23,051)	(89,552)
Repayment of long-term loans and deposits given	87,791	3,593	118,057	69,118
Purchase of trading securities	(8,979)	(108,944)	(8,979)	(108,944)
Sale of trading securities	2,326	106,733	2,218	106,733
Short-term loans given and deposits	(2,102)	-	(11,074)	(32,221)
Repayment of short-term loans and deposits given	59	-	29,733	2,022
Dividends paid	(51,242)	(20,420)	(51,242)	(20,420)
	(233,050)	(405,800)	(104,039)	(303,527)
Cash flows from financing activities				
Purchase of treasury shares	(195,959)	(71)	(195,959)	(71)
Sale of treasury shares	989	312	989	312
Proceeds from long-term borrowings	166,969	310,132	90,953	280,351
Repayment of long-term borrowings	(166,277)	(157,939)	(94,230)	(98,340)
Proceeds from short-term loans	607,614	378,967	497,815	339,152
Repayment of short-term loans	(368,544)	(280,538)	(320,130)	(263,646)
	44,792	250,863	(20,562)	257,758
Net increase in cash and cash equivalents	29,135	38,275	1,794	30,484
Cash and cash equivalents:				
At the beginning of year	110,468	72,193	66,061	35,577
At the end of year	139,603	110,468	67,855	66,061

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

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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.

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

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

NOTE 2 – ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

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 principal accounting policies have been consistently applied for all periods covered by this report, unless otherwise stated.

The consolidated financial statements of the Group and the financial statements of the Company have been prepared using the historical cost convention (acquisition cost), with the exception of certain items of tangible assets and available-for-sale investments which were measured at market value.

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

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

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

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 2 – ACCOUNTING POLICIES (continued)

2.3 Foreign currencies

(1) Measurement currency

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

(2) Transactions and balances

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

(3) Group companies

Income statements and cash flows of foreign entities are translated into the Group’s reporting currency at average exchange rates for the year and their 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 an intangible asset of the Group. Goodwill is carried at historical cost denominated in the foreign currency and reported using the exchange rate at the date of the transaction.

2.4 Property, plant and equipment

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

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

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 2 – ACCOUNTING POLICIES (continued)

2.4 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:

	2003	2002
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.

2.5 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.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 2 – ACCOUNTING POLICIES (continued)

2.6 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 liquidity needs are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date in which case they are included in current assets. 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.

2.7 Leases

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

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease term.

2.8 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 estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

NOTE 2 – ACCOUNTING POLICIES (continued)

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

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

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.

NOTE 2 – ACCOUNTING POLICIES (continued)

2.13 Share capital

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

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

2.14 Borrowings

Borrowings 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 measured at amortised value. Commercial papers are recognised initially at cost which represents the fair value of the proceeds received increased by transaction costs.

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.

NOTE 2 – ACCOUNTING POLICIES (continued)

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, i.e. when significant risks and rewards of ownership of the goods are transferred to the buyer. Revenues 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.

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 credit lines.

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

(4) Interest rate risk

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

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

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 Kviki, Fruit and Vegetables, Beverages, Mill and bakery products, Meat and meat 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 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 Kviki segment includes the production of baby food, Lino-Lada, Dolcela, Kviki-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 a part of the selection that Podravka took over by acquiring new subsidiaries in 2002 (ice-cream, rice, leguminoze).

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 2003

NOTE 3 – SEGMENT INFORMATION (continued)

Analysis by business segment

	Podravka Group							
	2003				2002			
	Sales		Gross profit		Sales		Gross profit	
	(in thousands of HRK)	%						
Vegeta	595,373	18.5	353,690	28.3	692,476	25.2	407,168	34.8
Drugs and Cosmetics	572,767	17.8	319,446	25.6	550,569	20.0	285,930	24.4
Podravka dishes	273,058	8.5	107,137	8.6	268,201	9.8	113,510	9.7
Meat products	271,754	8.5	54,446	4.4	257,585	9.4	45,446	3.9
Lino, Dolcela, Kviki	280,305	8.7	105,777	8.5	263,223	9.6	114,945	9.8
Fruit and vegetables	213,735	6.7	63,589	5.1	201,415	7.3	57,658	4.9
Merchandise	525,292	16.3	98,908	7.9	228,747	8.3	51,585	4.4
Beverages	192,906	6.0	84,277	6.7	138,324	5.1	56,085	4.8
Mill and bakery products	65,913	2.0	13,959	1.1	62,902	2.3	11,237	1.0
Acquisitions and other	226,559	7.0	47,964	3.8	83,351	3.0	27,808	2.3
	3,217,662	100	1,249,193	100	2,746,793	100	1,171,372	100

Geographical analysis by destination

	Podravka Group			
	2003		2002	
	(in thousands of HRK)	%	(in thousands of HRK)	%
Croatia	1,748,190	54.3	1,520,846	55.3
South-East Europe	687,162	21.4	507,490	18.5
Poland and Baltic States	132,129	4.1	243,809	8.9
Central Europe	361,554	11.2	221,817	8.1
Eastern Europe	82,920	2.6	74,276	2.7
USA, Canada, Western Europe and Scandinavia	140,525	4.4	127,297	4.6
Target markets	65,182	2.0	51,258	1.9
	3,217,662	100.0	2,746,793	100.0

South-East European market: Slovenia, BiH, Serbia, Macedonia, Montenegro

Poland and Baltic States: Poland, Latvia, Estonia and Lithuania

Central European market: the Czech Republic, Slovakia, Hungary

Eastern European market: Russia, the Ukraine, Belarus, Kazakhstan

Target markets: Australia, Romania, Italy, Turkey

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 3 – SEGMENT INFORMATION (continued)

Segment analysis of balance sheet positions

	Podravka Group							
	2003				2002			
	Tangible fixed assets		Inventories of finished products and merchandise		Tangible fixed assets		Inventories of finished products and merchandise	
<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%	<i>(in thousands of HRK)</i>	%	
Vegeta	273,215	15.2	37,884	11.2	300,024	17.2	53,318	16.8
Drugs and Cosmetics	114,812	6.4	68,038	20.1	127,235	7.3	39,798	12.5
Podravka dishes	152,696	8.5	29,801	8.8	48,872	2.8	35,214	11.1
Meat products	117,372	6.5	41,116	12.1	121,685	7.0	39,696	12.5
Lino, Dolcela, Kviki	70,372	3.9	27,739	8.2	69,628	4.0	25,869	8.2
Fruit and vegetables	89,099	5.0	33,043	9.7	90,365	5.2	27,720	8.7
Merchandise	-	-	87,348	25.8	-	-	82,569	26.0
Beverages	119,695	6.6	6,118	1.8	123,859	7.1	6,345	2.0
Mill and bakery products	68,812	3.8	3,546	1.0	71,819	4.1	2,722	0.9
Acquisitions and other	794,257	44.1	4,551	1.3	791,373	45.3	4,111	1.3
	1,800,330	100	339,184	100	1,744,860	100	317,362	100

NOTE 4 – OTHER REVENUES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Recovered trade receivables previously written-off	3,209	31,828	1,090	3,256
Insurance proceeds for damages	7,137	5,108	5,256	3,043
Interest receivables written-off	-	778	-	1,649
Statute barred liabilities written-off	4,387	3,714	4,280	3,714
Other	16,599	17,067	6,611	3,105
	31,332	58,495	17,237	14,767

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 5 – COST OF GOODS SOLD

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Material	1,393,558	1,064,519	636,829	615,497
Salaries	282,709	266,505	161,842	155,162
Depreciation	129,236	115,219	68,041	60,631
Other	162,966	129,178	101,007	69,021
	1,968,469	1,575,421	967,719	900,311

NOTE 6 – GENERAL AND ADMINISTRATIVE EXPENSES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries	158,359	130,849	106,214	90,779
Depreciation	54,083	42,886	28,531	26,479
Banking, consultancy and other services	21,897	31,275	10,861	24,520
Other	107,275	97,191	62,614	57,656
	341,614	302,201	208,220	199,434

NOTE 7 – SELLING AND DISTRIBUTION COSTS

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Advertising and promotion	197,526	203,634	92,062	84,261
Salaries	244,807	215,615	126,537	113,348
Transport	59,064	53,530	27,419	23,035
Provisions	25,151	17,291	6,151	4,059
Rental	43,122	30,947	17,770	10,191
Depreciation	41,477	29,771	24,679	11,437
Material	31,045	38,023	17,149	13,425
Other	184,737	178,304	68,840	62,870
	826,929	767,115	380,607	322,626

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 8 – NET FINANCIAL (EXPENSE)/INCOME

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Investments				
Income				
- income from subsidiaries	-	-	59,713	52,177
- sale of interests /i/	-	42,304	-	41,592
- other	1,825	1,566	1,810	1,309
	<u>1,825</u>	<u>43,870</u>	<u>61,523</u>	<u>95,078</u>
Expenses /ii/	<u>(1,628)</u>	<u>(8,560)</u>	<u>(50,586)</u>	<u>(1,616)</u>
Net income from investments	197	35,310	10,937	93,462
Interest				
Income	9,411	10,375	25,829	29,562
Expense	(49,390)	(50,028)	(31,540)	(28,721)
Net interest (expense) / income	<u>(39,979)</u>	<u>(39,653)</u>	<u>(5,711)</u>	<u>841</u>
	<u>(39,782)</u>	<u>(4,343)</u>	<u>5,226</u>	<u>94,303</u>

/i/ In 2002, by selling the ownership interest in Panonska pivovara d.o.o., Podravka d.d. recorded income in the amount of HRK 41,592 thousand, and the Podravka Group recorded income in the amount of HRK 42,304 thousand.

/ii/ In 2003, by selling the subsidiary Hotel Podravina d.o.o., Podravka d.d. recorded a loss in the amount of HRK 3,284 thousand, and the Podravka Group recorded a loss in the amount of HRK 573 thousand (Note 12).

In 2003, in Podravka d.d. outstanding amounts due from associated companies have been provided for in the amount of HRK 47,300 thousand (Notes 13, 19, 20).

NOTE 9 – STAFF COSTS

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries	685,875	612,969	394,593	359,289
Other /i/	56,979	27,883	44,016	16,500
	<u>742,854</u>	<u>640,852</u>	<u>438,609</u>	<u>375,789</u>

/i/ Other staff costs include termination benefits, fees, awards, transportation costs and medical check-ups. In 2003, termination benefits in the amount of HRK 24,520 thousand were paid to 200 employees who left Podravka d.d.

As at 31 December 2003, the number of employees in the Group was 7,376 (2002: 7,488), and in Podravka d.d. there were 4,311 employees (2002: 4,486).

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 10 – PROFIT TAX

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Corporate profit tax at 20 %	20,754	20,741	-	-
Overseas tax	3,030	3,981	-	-
	23,784	24,722	-	-

In accordance with the Croatian tax regulations, at the end of 2003 the Company and certain subsidiaries in Croatia realised tax losses which expire as follows:

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
2003	-	20,457	-	-
2004	14,240	16,081	-	-
2005	110,831	114,338	109,219	109,219
2006	12,248	13,463	-	-
	137,319	164,339	109,219	109,219

The Tax Authority review of the Company's income tax returns for the years 2002 and 2003 are currently in progress. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 11 – EARNINGS/(LOSS) AND DIVIDENDS PER SHARE

(Loss)/earnings per share of HRK -0.16 (2002: HRK 16.76) 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 -855 thousand (2002: HRK 87,898 thousand) and the weighted average number of ordinary shares in issue of 5,234,327 less treasury shares (2002: 5,244,913).

Diluted earnings per share of HRK 1.78 (2002: HRK 18.23) 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 (up to July 2003) and taking into consideration the impact of the assumed conversion of the employee share options of 33,929 were eligible during the year but remain unexercised.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 12 – INVESTMENTS IN SUBSIDIARIES

	Holding in %	Podravka d.d.	
		2003	2002
<i>(in thousands of HRK)</i>			
Belupo d.d., Koprivnica	100.00	157,830	157,830
- Belupo d.o.o. Ljubljana (subsidiary)	100.00	-	-
- Belupo s.r.o., Bratislava (subsidiary)	100.00	-	-
Koprivnička Tiskarnica d.o.o., Koprivnica	100.00	14,142	14,142
Danica d.o.o., Koprivnica	100.00	92,311	92,311
Podravka Inženjering d.o.o., Koprivnica	100.00	20	20
Poni trgovina d.o.o., Koprivnica	100.00	20	20
Hotel Podravina d.o.o., Koprivnica /i/	100.00	-	9,684
Ital-Ice d.o.o., Poreč	100.00	47,425	47,425
Sana d.o.o., Hoče, Slovenia	100.00	217	217
Podravka d.o.o., Ljubljana, Slovenia	100.00	1,925	1,925
Podravka d.o.o., Skopje, Macedonia	100.00	42	42
Podravka d.o.o., Sarajevo, Bosnia and Herzegovina	100.00	40	40
Podravka d.o.o., Podgorica, Serbia and Montenegro	100.00	1,029	1,029
Podravka-International Deutschland –“Konar” GmbH, Germany	100.00	1,068	1,068
Podravka d.o.o., Beograd /ii/	100.00	34	-
Podravka-International Kft, Budapest, Hungary	100.00	5,343	5,343
Podravka-International e.o.o.d., Sofia, Bulgaria	100.00	10	10
Podravka-International Pty Ltd, Sydney, Australia	100.00	426	426
Podravka-International Sp.z o.o., Warsaw, Poland	100.00	277	277
Podravka-Polska Sp.z o.o., Kostrzyn, Poland	100.00	49,440	49,440
Podravka-International s.r.l., Bucharest, Romania	100.00	84	84
Lagris a.s., Lhota u Luhačovic, Czech Republic /iii/	100.00	56,268	68,754
Lagris s r.o., Zvolen, Slovakia	75.00	996	996
Podravka-International s.r.o., Bratislava, Slovakia	50.00	18	18
- Podravka-International s.r.o. Prague (subsidiary)	100.00	-	-
		428,965	451,101

/i/ In 2003, the holding in Hotel Podravina d.o.o. was sold for an amount of HRK 6,400 thousand. The realised loss from the sale is disclosed as investment expense (Note 8).

/ii/ In 2003, Podravka d.o.o., Beograd became a subsidiary of the parent Company through a purchase from Konar GmbH for the amount of HRK 34 thousand.

/iii/ In June 2003, the holding in the Lagris subsidiary was reduced by a cash transfer of retained earnings in the amount of HRK 12,486 thousand, which was realised before the acquisition.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 13 – LONG-TERM RECEIVABLES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Flats and sale of flats on credit	3,711	4,505	3,711	4,505
Due from associated companies /i/	-	-	311,119	299,290
Other loans and deposits	13,757	105,924	6,413	95,195
Total long-term receivables, including current portion	17,468	110,429	321,243	398,990
Current portion of long-term receivables	(2,739)	(4,078)	(82,412)	(91,855)
Total long-term receivables	14,729	106,351	238,831	307,135

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

- Belupo d.d., Koprivnica in the amount of HRK 177,966 thousand (2002: HRK 159,218 thousand), interest 6%, maturity 5 years and a loan in the amount of HRK 28,000 thousand, interest 6%, maturity 15 months;
- Danica d.o.o., Koprivnica in the amount of HRK 99,737 thousand (2002: HRK 113,493 thousand), the average interest rate on borrowings for working capital of Podravka d.d., maturity 10 years;
- In 2003, a provision was made for the long-term loan receivable from Podravka International, Warsaw in the amount of HRK 18,637 thousand (Note 8);
- Poni d.o.o., Koprivnica in the amount of HRK 3,600 thousand (2002: HRK 4,800 thousand), interest 6%, maturity 5 years;
- Podravka d.o.o., Beograd in the amount of HRK 1,805 thousand, interest monthly EURIBOR+2%, maturity 3 years.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 14 – INTANGIBLE ASSETS

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
For the year ended 31 December				
Opening net book amount	195,196	69,766	120,182	47,638
Effect of changes in foreign exchange rates	(1,670)	(2,256)	-	-
Additions /i/	10,927	87,994	8,156	86,108
Goodwill /ii/	-	52,460	-	-
Acquisition of subsidiaries /iii/	-	8,300	-	-
Disposals	(2,800)	(140)	(2,709)	-
Amortisation	(44,684)	(20,928)	(29,327)	(13,564)
Closing net book amount	<u>156,969</u>	<u>195,196</u>	<u>96,302</u>	<u>120,182</u>
At 31 December				
Cost	251,163	245,952	158,729	153,288
Accumulated amortisation	(94,194)	(50,756)	(62,427)	(33,106)
Net book value	<u>156,969</u>	<u>195,196</u>	<u>96,302</u>	<u>120,182</u>

/i/ The increase in intangible assets in 2003 relates to an improvement in the Windows and Office operating system and an improvement in the SAP application software.
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 is effective from January 2003.

/ii/ In 2002, goodwill in the amount of HRK 52,460 thousand arose due to the acquisition of the companies Ital-Ice d.o.o., Poreč, Croatia, Lagris a.s., Lhota in Luhačovic, Czech Republic and Lagris s.r.o., Zvolen, Slovakia. The stated goodwill amount is amortised on a straight-line basis over a period of 5 years.

/iii/ The acquired net assets of the subsidiaries purchased in 2002 included a net book value of intangible assets in the amount of HRK 8,300 thousand.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT

Podravka Group <i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets in course of construction	Total
Year ended 31 December 2002				
Opening net book amount	1,153,365	462,256	28,477	1,644,098
Effect of changes in foreign exchange rates	(9,061)	(5,651)	14	(14,698)
Additions /i/	1,346	15,156	208,517	225,019
Acquisition of subsidiaries /ii/	49,316	15,808	250	65,374
Transfer	9,765	135,405	(145,170)	-
Disposals	(3,216)	(4,769)	-	(7,985)
Depreciation	(57,106)	(109,842)	-	(166,948)
Closing net book amount	1,144,409	508,363	92,088	1,744,860
At 31 December 2002				
Cost	1,760,837	1,357,873	92,088	3,210,798
Accumulated depreciation	(616,428)	(849,510)	-	(1,465,938)
Net book value	1,144,409	508,363	92,088	1,744,860
Year ended 31 December 2003				
Opening net book amount	1,144,409	508,363	92,088	1,744,860
Effect of changes in foreign exchange rates	(8,732)	(4,615)	53	(13,294)
Additions /i/	1,664	9,068	251,105	261,837
Transfer	63,976	140,504	(204,480)	-
Sale of subsidiaries	(7,154)	(565)	(13)	(7,732)
Disposals	(3,871)	(1,350)	(8)	(5,229)
Depreciation	(56,666)	(123,446)	-	(180,112)
Closing net book amount	1,133,626	527,959	138,745	1,800,330
At 31 December 2003				
Cost	1,796,100	1,460,501	138,745	3,395,346
Accumulated depreciation	(662,474)	(932,542)	-	(1,595,016)
Net book value	1,133,626	527,959	138,745	1,800,330

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

/i/ In 2003 and in 2002, the most significant increase in tangible fixed assets refer to investments in:

- a new factory Podravka dishes in the amount of HRK 100.2 million (2002: HRK 22.1 million),
- a new factory under construction for the production of semisolid and liquid medicine in the amount of HRK 60.5 million (2002: HRK 32.1 million),
- the factory Studenac Lipik in the amount of HRK 15.1 million (2002: HRK 56.8 million),
- the factory Kalnik in the amount of HRK 9.0 million,
- a factory for the production of cocktail rolls – a production line of extruded products in the amount of HRK 8.6 million,
- buildings and equipment for the production of meat products in the amount of HRK 11.8 million (2002: HRK 6.3 million),
- equipment for the Vegeta factory in the amount of HRK 7.1 million,
- IT and telecommunication equipment in the amount of HRK 3.3 million (2002: HRK 17.6 million),
- logistics assets and transportation vehicles in the amount of HRK 3.0 million (2002: HRK 7.1 million).

/ii/ By acquiring subsidiaries during 2002, a net value of tangible fixed assets in the amount of HRK 65,374 thousand was acquired.

/iii/ Group buildings and land worth HRK 630,642 thousand (2002: HRK 558,697 thousand) have been mortgaged against the Group's borrowings (Note 22).

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

	Podravka Group	
	2003	2002
	<i>in thousands of HRK</i>	
Cost of capitalised finance leases	44,220	25,440
Accumulated depreciation	(12,789)	(4,699)
Net book value	31,431	20,741

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 15 – PROPERTY, PLANT AND EQUIPMENT (continued)

Podravka d.d. <i>(in thousands of HRK)</i>	Land and buildings	Equipment	Assets in course of construction	Total
Year ended 31 December 2002				
Opening net book amount	711,231	236,015	17,142	964,388
Additions /i/	1,307	5	147,189	148,501
Transfer from assets in course of construction	8,458	85,439	(93,897)	-
Transfer to subsidiaries	(1,851)	(545)	-	(2,396)
Disposals	(2,934)	(607)	-	(3,541)
Depreciation	(33,922)	(51,061)	-	(84,983)
Closing net book amount	682,289	269,246	70,434	1,021,969
At 31 December 2002				
Cost	1,051,317	704,933	70,434	1,826,684
Accumulated depreciation	(369,028)	(435,687)	-	(804,715)
Net book value	682,289	269,246	70,434	1,021,969
Year ended 31 December 2003				
Opening net book amount	682,289	269,246	70,434	1,021,969
Additions /i/	1,112	520	156,883	158,515
Transfer from assets in course of construction	59,457	118,643	(178,100)	-
Transfer from subsidiaries	-	3,613	-	3,613
Disposals	(3,833)	(350)	-	(4,183)
Depreciation	(33,375)	(58,549)	-	(91,924)
Closing net book amount	705,650	333,123	49,217	1,087,990
At 31 December 2003				
Cost	1,106,586	809,110	49,216	1,964,912
Accumulated depreciation	(400,935)	(475,987)	-	(876,922)
Net book value	705,651	333,123	49,216	1,087,990

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

/ii/ Company buildings and land worth HRK 282,498 thousand (2002: HRK 382,192 thousand) have been mortgaged against the Company's borrowings (Note 22).

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 16 – INVENTORIES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Raw materials and supplies	201,163	212,487	113,775	122,374
Work in progress	69,967	67,261	57,115	48,907
Finished goods	186,397	162,327	83,776	86,979
Merchandise	152,787	155,035	28,838	30,557
	610,314	597,110	283,504	288,817

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

NOTE 17 – AVAILABLE-FOR-SALE INVESTMENTS

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Investments in equity instruments	6,903	7,777	5,676	6,542
Other	8,979	120	8,979	-
	15,882	7,897	14,655	6,542

NOTE 18 – TRADE RECEIVABLES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Trade receivables	825,932	776,713	211,198	188,694
Provisions	(165,116)	(155,919)	(83,784)	(83,512)
Net trade receivables	660,816	620,794	127,414	105,182
Due from associated companies	-	-	222,686	208,183
Prepayments	12,374	9,356	127	540
	673,190	630,150	350,227	313,905

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 19 – OTHER RECEIVABLES AND PREPAID EXPENSES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Receivables for retained earnings from associated companies /i/	-	-	11,127	49,116
Other receivables from associated companies /ii/	-	-	15,781	38,457
Other receivables from non-associated companies /iii/	6,102	5,330	6,099	5,146
Tax receivable /iv/	33,499	22,678	4,720	2,125
Other	37,032	37,645	15,016	19,818
	76,633	65,653	52,743	114,662

/i/ According to the Management Board decisions in 2002 and 2003, the Company recorded receivables for withdrawal of retained earnings from the following subsidiaries:

- Belupo d.d. in the amount of HRK 2,409 thousand (2002: HRK 25,000 thousand),
- Ital-Ice d.o.o. in the amount of HRK 1,553 thousand,
- Sana d.o.o. Hoće in the amount of HRK 1,891 thousand,
- Podravka Poland Kostrzyn in the amount of HRK 2,571 thousand (2002: HRK 24,116 thousand). In 2003, the receivables have been provided for in the amount of HRK 14,600 thousand (Note 8).
- Podravka d.o.o., Skopje in the amount of HRK 1,255 thousand and
- Podravka International, Budapest in the amount of HRK 1,448 thousand.

/ii/ The most significant portion of other receivables from associated companies relates to due unpaid long-term loan receivables from subsidiaries in the amount of HRK 11,240 thousand and receivables from interest due in the amount of HRK 4,541 thousand, of which HRK 14,540 thousand relate to Belupo d.d. (2002: HRK 36,812 thousand).

/iii/ Due unpaid receivables and interest on long-term loans of non-associated companies.

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

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 20 – SHORT-TERM LOAN RECEIVABLES

	Average weighted interest rate	Podravka Group		Podravka d.d.	
		2003	2002	2003	2002
		<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	4.17%	-	-	-	16,435
Poni trgovina d.o.o. Koprivnica	6.00%	-	-	5,982	26,478
Podravka d.o.o. Belgrade	4.15%	-	-	3,186	3,721
Belupo d.d., Koprivnica	6.00%	-	-	2,474	-
Other	7.75%	3,643	9,651	-	-
		3,643	9,651	11,642	46,634

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

NOTE 21 – CASH AND CASH EQUIVALENTS

	Podravka Group		Podravka d.d.		
	2003	2002	2003	2002	
		<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Cash with banks	104,029	93,408	32,789	49,461	
Cheques received	87	175	14	61	
Bills received	35,274	16,843	35,046	16,513	
Deposits	213	42	6	26	
	139,603	110,468	67,855	66,061	

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 22 – LONG-TERM DEBT

	2003	2002
	<i>(in thousands of HRK)</i>	
Podravka d.d.		
Repayment due in 2003	-	89,785
Repayment due in 2004	104,141	101,528
Repayment due in 2005	93,748	88,888
Repayment due in 2006	138,221	78,255
Repayment due in 2007	50,407	36,783
Repayment due in 2008 and thereafter	80,969	61,781
Total long-term debt	467,486	457,020
Current portion of long-term debt	(104,141)	(89,785)
Total long-term debt excluding current portion	363,345	367,235
Podravka Group		
Repayment due in 2003	-	159,139
Repayment due in 2004	157,046	160,790
Repayment due in 2005	151,948	133,056
Repayment due in 2006	171,754	99,561
Repayment due in 2007	67,455	40,928
Repayment due in 2008 and thereafter	110,302	61,781
Total long-term debt	658,505	655,255
Current portion of long-term debt	(157,046)	(159,139)
Total long-term debt excluding current portion	501,459	496,116

For the Podravka Group, the increase of liabilities from long-term debt during 2003 amounted to HRK 166,969 thousand, and for Podravka d.d. it amounted to HRK 90,953 thousand (2002: Podravka Group: HRK 310,132 thousand and Podravka d.d.: HRK 280,351 thousand). The increase mainly refers to granted loans from the following banks:

- HBOR in the amount of HRK 35,063 thousand for the construction of the Podravka dishes factory in Koprivnica. The interest rate is 5.5% p.a. The loan repayment starts at the end of 2005. The last instalment is due in 2013.
- HBOR in the amount of EUR 2,500,000, of which HRK 8,890 thousand was utilized for the financing of the investment in Dinova. The interest rate is 3% p.a. The loan repayment starts in 2006, and the last instalment is due in 2014.
- Erste&Steiermärkische Bank in the amount of HRK 47,000 thousand from HBOR funds as a part of the programme for granting credits for the development of export and import of goods. The interest rate is 4% p.a. The is due in full at the end of 2006.
- RBA in the amount of EUR 6,270,000 or HRK 47,946 thousand for Belupo d.d., EUR 2,300,000 or HRK 17,588 thousand for Danica, and EUR 700,000 or HRK 5,353 thousand for Ital-Ice. The interest rate is 6 month EURIBOR + 1.5%. The loan repayment for Belupo d.d. and Danica d.o.o. starts in 2004 and for Ital-Ice in 2008. The last instalment is due in 2009.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 22 – LONG-TERM DEBT (continued)

The decrease in long-term loan liabilities corresponded to the loan repayment plan in 2003 and amounted to HRK 166,277 for the Podravka Group and HRK 94,230 thousand for Podravka d.d. (2002: HRK 157,939 thousand for the Podravka Group and HRK 98,340 thousand for Podravka d.d.).

In 2003, the average weighted interest rate for loans from banks for Podravka d.d. was set at 4.32% (2002: 5.27%) and for the Group 4.27% (2002: 5.44%). The majority of long-term debt carry variable interest rates based on EURIBOR, WIBOR, BUBOR, PRIBOR and TOM. In 2003, the average weighted interest rate for finance lease liabilities for the Podravka Group was set at 8.74% (2002: 8.73%).

Total secured loans of Podravka d.d. and the Group amounted to HRK 408,356 thousand (2002: HRK 380,446 thousand) and HRK 568,219 thousand (2002: HRK 551,239 thousand), respectively.

NOTE 23 – TRADE PAYABLES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Trade payables	462,909	430,545	164,358	200,070
Due to associated companies	-	-	53,048	44,365
	462,909	430,545	217,406	244,435

NOTE 24 – OTHER LIABILITIES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Salaries and other payments to employees	63,881	55,386	39,369	32,140
Dividend payable	1,214	123	1,214	123
Interest payable on borrowings	9,873	7,687	7,923	5,919
Taxes and contributions payable	19,305	33,817	10,754	14,448
Purchase of equity interests	2,996	12,502	2,996	12,502
Other	15,764	27,046	3,726	8,858
	113,033	136,561	65,982	73,990

PODRAVKA GROUP**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 DECEMBER 2003**

NOTE 25 – SHORT-TERM BORROWINGS

	<u>Interest rate/yield</u>	<u>2003</u>	<u>2002</u>
Podravka d.d.		<i>(in thousands of HRK)</i>	
Commercial papers /i/	4.20%-4.75%	77,630	110,000
Banks	4.08%-6.39%	210,299	-
Other	4.50%	982	938
Total		<u>288,911</u>	<u>110,938</u>
Podravka Group			
Commercial papers	4.20%-4.75%	77,630	110,000
Banks	4.00%-12.05%	367,130	114,865
Other	4.50%	34,724	4,680
Total		<u>479,484</u>	<u>229,545</u>

/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 2003, HRK 168,000 thousand of commercial papers were issued (2002: HRK 162,000 thousand), and HRK 90,000 thousand were realised in the same year (2002: HRK 52,000 thousand). The net yield on issued commercial papers is 4.20%-4.75% (2002: 2.83% - 3.80%). The maturity of issued papers varies from 180 to 364 days (2002: 91 to 182 days).

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 26 – SHAREHOLDERS' EQUITY

/i/ As at 31 December 2003, the Company's share capital amounted to HRK 1,623,121,200, and consists of 5,410,404 shares (2002: HRK 1,812,808,800 and 6,042,696 shares). The nominal value amounted to HRK 300 per share. These shares are comprised as follows:

	2003		2002	
	Number of shares	Amount	Number of shares	Amount
Ordinary shares	5,410,404	1,623,121	5,406,696	1,622,009
Preferred shares	-	-	636,000	190,800
Total	5,410,404	1,623,121	6,042,696	1,812,809
Treasury shares	(185,597)	(35,502)	(160,253)	(30,730)

/ii/ The ownership structure is as follows:

	2003		2002	
	Number of shares	%	Number of shares	%
Ordinary shares				
Shareholders – legal entities	2,606,743	48.18	2,536,163	41.97
Shareholders – individuals	1,815,225	33.55	1,926,183	31.88
Croatian Privatisation Fund	802,839	14.84	784,097	12.97
Treasury shares	185,597	3.43	160,253	2.65
Total	5,410,404	100.00	5,406,696	89.47
Preferred shares				
EBRD	-	-	636,000	10.53
Total	5,410,404	100.00	6,042,696	100.00

/iii/ According to the decision of the Croatian Privatisation Fund in May 2003, the capital was increased by issuing 3,708 new shares with a nominal value of HRK 300 each. These shares relate to the valuation of land on the island of Čiovo in the amount of HRK 1,112,400, which was not included in capital during the Company's privatisation process in 1993.

/iv/ According to the decision of the General Assembly in July 2003 on the decrease in capital by withdrawing 636,000 shares of series «B» with a nominal value of HRK 300 each, in August 2003 the decrease in capital was executed at the Commercial Court in Bjelovar in the amount of HRK 190,800 thousand.

/v/ The realised preferred dividend for 2002 amounted to EUR 4.35 per share, and the total amount of dividend was EUR 2,766,600 or HRK 20,864 thousand (2001: EUR 2,766,600 or HRK 20,420 thousand), paid to EBRD in July 2003 (2001: in July 2002).

/vi/ Following the decision of the General Assembly, the dividend from net profit for 2002 was approved in the gross amount of HRK 6.0 per ordinary share, which totals HRK 31,469 thousand (from net profit for 2001: -). The dividend was paid in full by the end of 2003 in the amount of HRK 30,375 thousand.

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 26 – SHAREHOLDERS' EQUITY (continued)

/vii/ 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 2003, an amount of HRK 3,807 thousand (2002: HRK 871 thousand) was transferred to legal reserves. This amount refers to realised profit in 2002 and in 2001. An amount of HRK 3,617 was transferred to other reserves (2002: HRK 828 thousand) in accordance with the Company's Statute.

/viii/ In 2003, 667,376 treasury shares (2002: 237) were purchased at the total cost of HRK 196,561 thousand (2002: HRK 71 thousand). From total purchased treasury shares, 636,000 shares represents preferred shares of series «B» purchased from EBRD at HRK 300 per share, which totals EUR 25,564,595 or HRK 190,800 thousand. The purchase was performed in accordance with the agreed timing on 15 July 2003.

In 2003, 6,032 treasury shares were sold (2002: 1,650) for an amount of HRK 989 thousand (2002: HRK 312 thousand).

NOTE 27 – MANAGEMENT BENEFITS

In 2003, benefits paid to members of the Management Board and the Supervisory Board amounted to HRK 6,649 thousand (excluding termination benefits HRK 4,346 thousand) (2002: HRK 4,195 thousand) and HRK 1,589 thousand (2002: HRK 1,360 thousand), respectively.

NOTE 28 – MINORITY INTEREST

	<u>2003</u>	<u>2002</u>
	<i>(in thousands of HRK)</i>	
At 1 January	550	495
Share of net profit for the year	45	55
	<u>595</u>	<u>550</u>

PODRAVKA GROUP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2003

NOTE 29 – COMMITMENTS

In 2003, the purchase costs of tangible fixed assets contracted with suppliers were HRK 39,989 thousand for the Group and HRK 30,543 thousand for the Company (2002: HRK 129,019 thousand for the Group and HRK 89,608 thousand for the Company), which are not yet realised or recognised in the balance sheet as at 31 December 2003 and 2002.

The future payments receivable under operating leases for the usage of means of transportation are as follows:

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Not later than 1 year	17,998	15,545	13,925	12,369
Later than 1 year and not later than 5 years	45,757	51,460	33,723	40,806
Later than 5 years	-	-	-	-
	63,755	67,005	47,648	53,175

NOTE 30 – CONTINGENCIES

	Podravka Group		Podravka d.d.	
	2003	2002	2003	2002
	<i>(in thousands of HRK)</i>		<i>(in thousands of HRK)</i>	
Legal proceedings	36,877	47,596	10,223	20,942
Guarantees for borrowings	28,651	62,183	430,166	358,045
	65,528	109,779	440,389	378,987

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

NOTE 31 – POST BALANCE SHEET EVENTS

Following approval of the financial statements by the General Assembly, based on the subscription contract for preferred shares with EBRD, the dividend for the period from January to July 2003 will amount to EUR 4.35 per preferred share, and the total amount of dividend will be EUR 1,414,040 or HRK 10,813 thousand. The dividend should be paid by 31 July 2004 at the latest.