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PRESIDENT'S STATEMENT

Dear shareholders,

Main features of the business year 2008 for Podravka were efficient cost management, better exploitation of own resources, reorganization, and as the final detail, the highest organic growth recorded in the last ten years.

Challenges we were facing in the last year truly are not easy to enumerate, and they followed us through both of our strategic business areas (SBA), as in Food and beverages, thus in Pharmaceutics. Last year's biggest challenges for the food processing industry in general were the prices of raw materials, production materials and power sources. So that our consumers would no feel that increase in prices, we have devoted ourselves to finding solutions how to reorganize and adapt processes on production level so that available resources could be used more efficiently, and we succeeded.

We believe we have not disappointed our consumers with the quality or design of our many new products, launching of which Podravka Group confirms its status as one of the most innovative food processing companies. Completing the semi-industrial laboratory in 2008 we ensured another precondition to create critical amounts of knowledge necessary to maintain high level of innovation in the company. We have equipped the laboratory with the state-of-the art devices that help turn scientific ideas, developmental concepts and needs of the consumers into new technological processes and innovative products, in a short period of time and with reduced development costs.

Changing the structure of the Management Board we have started to change how SBA Food and beverages was organized, and that included reduced number of manager positions, balancing salaries and benefits according to management responsibilities, which had a positive effect on vertical communication within SBA Food and beverages, but also on better management of expenses.

Optimizing business on SBA Food and beverages level was a precondition for advancing business processes, and it was afterwards applied to other organizational parts, with the purpose of realizing the strategy set and raising the efficiency on the Group level. At the same time, we have devoted ourselves to another, not less important strategic goal – organic sales growth and growth through acquisitions. SBA Food and beverages recorded 9% organic growth, both in domestic and foreign markets, contributed by the growth of all product groups within Podravka brands. It should also be noted that as of 2008 Podravka no longer distributes commercial goods from Nestlé in Croatian market, and that decrease in sales we have almost entirely managed to substitute by the before mentioned organic growth in domestic market.

At the level of Pharmaceuticals, the changes were directed towards expanding the business to drugstores, and in 2008 we purchased about ten pharmacy units with the purpose of creating a platform for better understanding and knowing the needs of end consumers. As the strategy also required expansion to foreign markets, last year Belupo signed a contract on strategic alliance with Farmavita, pharmaceutical company from Bosnia and Herzegovina. Next to distribution of medicines, with Belupo's help it will concentrate more on production and development of own medicines. Stated changes were positively reflected on SBA Pharmaceuticals sales growth, while the change in the sales structure had a negative impact on profitability, considering pharmacies and Farmavita business were characterized by low profit margins.

Last year was the year of great changes, but also of great expectations. Business results for 2008 are much better if compared to the year before, and whether the expectations were met it is to be said by our shareholders. The satisfaction cannot be complete, as we are aware that there is always room for progress. As for numbers, please find the detailed overview in the report before you.

We are still strategically committed to growth based on own brands sales and based on acquisitions that will create additional value for us and our shareholders, and in 2009 we will continue to invest into projects, both started and new.

Best regards,

Management Board President
Zdravko Šestak

PODRAVKA GROUP IN 2008

Business events

Strategic association of Belupo and Farmavita Contract signed
Pharmaceutical companies Belupo and Farmavita signed a contract on strategic alliance. Flexible production capacities and fair market position place Farmavita high on the scale of pharmaceutical companies in Bosnia and Herzegovina. With this strategic alliance Belupo continues long-term strategy based on development of global business operations, strengthening of the market position in the region and the possibility of opening of new markets, and the development plans include building modern production facility of Farmavita.

Semi-industrial laboratory equipped with modern technological equipment
Semi-industrial laboratory was equipped with the state of the art technological equipment which provides Podravka's experts working on product development the possibility of turning scientific ideas, development concepts and needs of the consumers into new technological processes and innovative products.

Fourth award of scholarships and supports from the "prof. Zlata Bartl" Foundation
Fourth award of scholarships and supports from the "prof. Zlata Bartl" Foundation gave the total of 10 scholarships and 6 supports to the best students applied for the contest. In the previous contests the students were awarded with 73 scholarships and supports in total.

Vegeta among the strongest brands in Croatia
PGM research in Croatia shows that Vegeta took the position of the leading Croatian brand among consumer goods in the region, and in Slovenia and Bosnia&Herzegovina it is among the ten strongest brands.

Superior Taste Award for Beef Goulash
Superior Taste Award is a symbol of excellence, and it is being awarded by the International Taste & Quality Institute from Brussels – the leading world organization that evaluates the quality of the taste of all product categories in the food and beverages segment. Superior Taste Award confirms the excellence of taste and high quality of Podravka's Beef Goulash recognized in the entire region of South East Europe.

Chopped tomato rewarded in Poland
As researched by the GFK Poland Institute for Trade News Magazine, Podravka's chopped tomato took the first place in the wide category of "Fruit and vegetables", confirming thus the status of the most sold new product. Podravka is one of the rare companies in the Polish market to get the right to apply the symbol "Pearls of FMCG market 2008" to the product packaging and the right to use it in the advertising.

Best packaging award
Studena packaging received a valuable Cropak award for the best packaging in the category of Croatian product/series for the year 2008. Along with the new appearance, new bottle and modern transparent cork, Studena enriched its offering with two new PET packagings of 0.25 and 0.75 L, and packagings of 0.25, 0.5 and 0.75 L are available with Seaquist sport cork.

"Superbrands B&H 2008"
"Podravka", "Čokolino" and "Vegeta" brands gained the Superbrands status and the right to use "Superbrands B&H 2008" award seal.

First scholarship winners from the HGK trust fund
Trust fund HGK (Croatian Chamber of Economy) County Chamber of Economy Koprivnica and co-founders Podravka, Radnik, Hartmann and Naturaagro awarded the first scholarships, so the first five winners received contracts for monthly scholarships of HRK 1,500.

Vegeta still among the strongest brands
According to the researches performed by the Valicon company for the first half of 2008 related to the Croatian market, domestic products still hold the leading positions in the range of strongest domestic consumer goods brands.

Belupo leader in OTC segment
In the segment of OTC painkillers, due to heavy growth of Neofen and Lupocet, Belupo took the leading position in sales, as reported by the IMS Health - IMS Adriatic d.o.o. The results for the first five months in 2008 show the significant change in the OTC painkillers segment.

Prof. Zlata Bartl deceased
At the age of 89 departed professor Zlata Bartl, the head of the team that in late '50s invented Podravka's renowned product, Vegeta. Prof. worked in Podravka until she retired in 1976. Among numerous received recognitions is the high decoration bestowed by the President of the Republic - the order of Danica with the image of Nikola Tesla, Golden marten for life's work by the Croatian Chamber of Economy and Podravka's memorial for life's work in 1987.

Supervisory Board's proposed decisions confirmed
General Assembly of shareholders of Podravka d.d. confirmed the decisions proposed by the Supervisory Board at its last session. Newly elected Supervisory Board of Podravka appointed the following members: Darko Marinac, Ksenija Horvat, Damir Felak, Boris Hmelina, Franjo Maletić, Dražen Sačer, Dubravko Štimac, Karmen Antolić, Nikola Gregur, Damir Kovačić and Branko Vuljak, while Marko Ećimović, Milan Artuković and Goran Gazivoda were released of their duties, which ended their term as Podravka' Supervisory Board members. After the General Assembly, the session of Supervisory Board of Podravka was held, electing Darko Marinac as Supervisory Board President, and Ksenija Horvat as his deputy. After appointing new President and the new deputy to the Supervisory Board, it was decided that the new Management Board will consist of five members: Zdravko Šestak as Management Board President, Miroslav Vitković as his deputy and Saša Romac, Marin Pucar and Josip Pavlović as Board members.

New organization of Podravka Group
SBA Food and Beverages consists of the following business programs: Food Seasonings, Food, Meat and Meat Products by Danica d.o.o., Beverages; Market of Croatia, Market of South East Europe, Market of Central Europe, Market of Eastern Europe, Market of Western Europe, Market of Overseas Countries, Production, Production

Support, Logistics and Business Programs Support. SBA Services consists of Corporate services and Administration, and SBA Pharmaceuticals consists of Belupo d.d. Corporate Functions consist of Human Resources, Strategic Development, Corporate Communications, Controlling, Treasury, Accounting, IT and Procurement.

Belupo and Lupocet get Superbrand status for 2008

Belupo pharmaceutical company gets the right to use Superbrands seal in Croatia for brands Belupo and Lupocet. Belupo's Lupocet that is in the market for the past 30 years the consumers recognized as the first choice medicine intended for reducing body temperature, treatment of pain of various origin and has become a compulsory part of medicine chest in every family.

Trusted brand for Lino baby food

In each category the readers of Reader's Digest marked the brand for its quality, appearance, usability and appropriateness of the price. Winning this award Lino baby food confirms its high quality, safety and nutritiousness of its products.

Podravka rewards its successful employees

As decided by the Management Board President Zdravko Šestak, Podravka decided to reward employees who will gain MA and PhD titles, showing thus that personal development of every individual is a great contribution to Podravka, and that encourages further education and continuous work on acquiring new knowledge.

Čokolešnik and Čoko brands purchased

Purchasing Čokolešnik and Čoko brands Podravka extends its range of breakfast cereals and follows the planned strategy of strengthening the market position. Purchasing these regional brands, Podravka ensures their further development, and they will be produced in Podravka's new baby food factory in Koprivnica.

Podravka Group published Sustainable Development Report for 2007

Sustainable Development Report that Podravka Group publishes for the fifth year is built compliant to Global Reporting Initiative Guidelines, and it provides an overview of the economic, environmental and social aspects of Podravka's business during 2007. It is a result of business operations which encourage making business decisions taking into consideration not only profit, but also environmental and social impacts of economic activities.

Scholarships from HGK trust fund awarded

Scholarships for pupils and students from the trust fund HGK County Chamber of Economy were awarded for the school year 2008/2009. This was the second ceremonial award of the scholarships from the trust fund of HGK County Chamber of Economy Koprivnica and co-founders Podravka, Radnik, Hartmann and Naturaagro. The candidates were evaluated for their success at school, the year of study, deficiency of their occupation which is of a special interest for the economy of this county and economic status of the students.

Coolinarika.com on the rise

According to the GoogleAnalytics, Coolinarika exceeded the magical number of 10,000,000 monthly hits and 1,000,000 monthly visits. The number of user recipes grew to 13,100 which is 337 percent increase compared to the year before. Daily visits of 50,000 and about ten viewed pages by one user put Coolinarika next to the most visited web sites in Croatia.

New products in the range

New Podravka Provita products

Crunchy muesli milk chocolate, Crunchy muesli strawberry yoghurt, Crunchy muesli berries (cranberry, raspberry, blueberry), Crunchy muesli white dark chocolate are the new products in the breakfast cereals category. These crunchy flakes based on oat combined with high-quality chocolate or fruit are easy to prepare with milk or yoghurt. The product is a natural source of diet fibers, without preservatives and artificial flavourings.

Podravka canned meat

The range of Podravka meat cans is enriched with new attractive doupack packaging. Duopack patés include 2 x 100 grams cans: Chicken paté 100 g duopack, Tea paté 100 g duopack and Liver paté 100 g duopack. The patés are distinguished in improves spreadability and mild taste and simple use for all age groups of consumers.

Cream soups Taste of nature

New line of vegetable cream soups Taste of nature brings to the table the full flavour of the finest vegetables. They are produced with the most modern technology and contain only natural ingredients, and the range includes cream of mushroom soup, cream asparagus soup, cream tomato soup, cream of button mushroom soup, cream broccoli soup and cream of edible bolete mushroom soup.

Cake sheets for Bohem Squares

Cake sheets for bohem squares is the new product intended for all enjoying the preparation of cakes. The packaging contains four sheets and two recipes, and it is distinguished by easy preparation, saving time and energy.

Lino biscuit

Ergonomic shape of the biscuit is adapted to a baby's hand and it is enriched with five vitamins (B1, B2, B6, C, niacin), calcium and iron. The product extends the baby food range and it contains wheat (glutene), sugar, milk, honey and butter, no eggs, nut products, preservatives and artificial flavourings.

Lino instant tea

Lino instant teas intended for children up to four years of age are dietetic, aromatic with full flavour, they have a mild and soothing effect to the stomach and they provide refreshment.

New flavours of Podravka ice-creams

The range of catering ice-creams in containers is expanded with five new products: banana with chocolate topping, biscuit with rum-punch topping, hazelnut gold with chocolate topping, cranberry with cranberry topping and apricot with apricot topping.

Ice Plus gel

Ice Plus gel is specially formulated gel with menthol and eugenol and has an instant cooling and lasting effect. Ice Plus gel helps relieve pain, relax muscles and stimulate circulation.

Visual refreshment of Studena

Studena is being visually refreshed, as well as being produced on the new production line. The changes include the twist in the values of the brand, logo and visual identity of the entire range of Studena products. New PET bottle (0.5 L and 1.5 L) is introduced to the market as well as the redesigned label for HoReCa and HOD packages. Apart from the new visual identity of the Studena brand, a new category of waters is introduced to the Croatian market – functional waters enriched with active natural extracts and flavourings, vitamins and minerals. Studena functional waters are: GO, DEFENSE and SHINE.

Čokolino ice-cream

Joint efforts of Ledo and Podravka's development teams resulted in a supreme ice-cream pleasure. With this cooperation Podravka provides Ledo with the right to use Čokolino trademark in the ice-cream category, and Ledo is in charge of production and distribution for the markets of South East Europe.

New flavours of Studena ice teas

Ice tea Pomegranate is based on spring water Studena, and the fullness of flavour is provided by concentrated pomegranate fruit juice, a mix of fruit concentrates (cherry, lemon, elder fruit), tea extract and natural aroma of pomegranate and wild cherry. Ice tea Red orange is a refreshing non-carbonated non-alcoholic beverage, and the distinctive flavour is provided by the Studena spring water, concentrated orange juice, tea extract, red orange natural flavour and herbal concentrates.

New appearance of Podravka family ice-creams

With the purpose of strengthening the recognizability of Podravka family ice-cream in 1 L cups, the packaging for the five most sold ice-creams in cups was redesigned. Practical packaging with the modern and attractive design has a characteristic seal "the whirlpool of taste" that communicates the imbuement of ice-cream with imaginative and carefully selected toppings.

Belmiran DAN and Belmiran SAN

Belmiran DAN and Belmiran SAN help alleviate problems caused by stress and insomnia. Belmiran DAN contains passionflower extract with a soothing and relaxing effect which makes Belmiran DAN suitable for relieving displeasure, frustration and irritation. Belmiran SAN which contains valerian, passionflower and hops extracts with a soothing effect, reduces the time needed to fall asleep and enables deeper and better sleep and is therefore recommended for sleeping disorder treatment.

Alomax

Alomax 5% solution is a new medicine in Croatian market for treating androgenic alopecia. It is intended exclusively for men. Alomax stimulates hair growth and firmness and resolves hair loss issue. It is recommended for men who have suffered hair loss problems for a shorter time.

NEOFEN plus gel

NEOFEN plus gel relieves pain and reduces inflammation, it is applied for local treatment of back and neck pain, muscle and joints pain, pains and inflammations caused by dislocation, pulling, spraining and other accidents and sport injuries, rheumatic pains and neuralgia.

New tomato products

Toscana and Italian sauce are made from tomato, they were launched and their design was adjusted primarily to the Polish market. They are packaged in Tetra recart that preserves their freshness and the colour of the tomatoes, and in that market they are a compliment to the range of Tomato Purée, Chopped tomatoes and Pelati.

PODRAVKA GROUP RESEARCH AND DEVELOPMENT

Podravka's product research includes 15 specialist departments and offices covering the most important technological and business areas in food industry: food seasonings, soups and semi-ready meals, baby food, breakfast cereals and sweet spreads, sweets, vegetable and condiments, fruit and teas, mill and baking products, snacks, beverages, frozen products, meat and meat products, fish, raw base, sensoring and nutritionism and technology development.
Basic activities of these departments are focused on development of new products and advancement of the existing ones. Product development department participates in devising products, from the initial idea, through building product proposal, test production to final product design, compliant to market demands and applicable legislature. But development work does not end here, but it continues through tracking the product throughout its life span.
Except for developing products in development units, production and control processes are constantly being improved. It is with particular attention that we track the development of science in food industry, in technology and consumer trends, and the products are constantly synchronised with current awareness on regular and healthy diet. We pay special attention to information contained on product declarations, product design, their organoleptic quality, nutritive and other features. The activities are taking place in close cooperation with other departments within the company, but the cooperation with leading experts and institutions outside Podravka is also not ignored.
All stated is performed in order to achieve a higher level of consumer satisfaction with Podravka's products and to ensure their leading position. One of the indicators of company's commitment and engagement on described development area is also opening of the new central semi-industrial laboratory in February 2008. The laboratory enables fast determination of technological and economic feasibility of ideas and an easy transition of ideas into concepts and new products. All stated enables creating new opportunities necessary for company's advancement and growth.

Belupo develops, perfects and produces prescription medicines, over-the-counter recipes (non-prescription medicines, herbal and dietetic products), cosmetic and hygiene products. In the new working environment of Belupo in Koprivnica there are developmental facilities built compliant to good laboratory practice (GLP) and they include facilities for developing packagings, analysis and testing of product stability and technology development according to good manufacturing practice (GMP).
In order for our products to find a safe way to their consumers, Belupo founded a highly expert team that implements modern methodologies also used in the world.
In 2008 Belupo launched to the market 18 new brands and four extensions of the existing brands. Per business areas, they are the following: 19 medicines (16 prescription medicines and 3 non-prescription medicines, so-called OTC medicines), 2 products in alimentary additives and 1 in the medical cosmetics. In total, for Belupo they are 16 new pharmaceutically active substances in 33 different doses and 42 different package sizes.
The majority of products are those having effect on cardio-vascular system, nervous system, followed by products having effect on bones and muscular system, digestion and skin.

SUPERVISORY BOARD MEMBERS BIOGRAPHIES

Mladen Vedriš
Supervisory Board President (till 28 May 2008)
Mr. Vedriš was born in 1950 in Zagreb. In 1996 he received his PhD from the Faculty of Economy and Business in Zagreb. From 1975 till 1984 he worked as a scientist and assistant director at the Center (Institute) for migration research. From 1984 till 1990 he worked in the Executive Council of Zagreb City Assembly as an advisor and manager of the department and acting deputy of the president of Town committee for physical planning and municipal services. From May 1990 till January 1993 he was the president of the Executive Council of Zagreb City Assembly. From December 1992 till April 1993 he carried the duty of the vice president of the Croatian Government for the area of economy. He was the president of the Croatian Chamber of Economy from May 1993 till September 1995. From 1993 till 1995 he was a member of the Croatian parliament. From February 1996 till April 2005 he worked in the company SONDER d.o.o. In May 2005 he became assistant-professor in the science area of social sciences at the sub-department for economy politics at the Law school in Zagreb. He is the winner of the Rector's reward in 1971 as an acknowledgement to the most successful students of Zagreb University.

Darko Marinac
Supervisory Board President (since 22 July 2008)
Darko Marinac was born in Zagreb in 1950. In 1973 he graduated from the Faculty of Engineering, University of Zagreb. In 1975 he started working in Pliva. Since 1990 to 1992 he was head of R&D at Pliva. He established and managed Pliva's companies in Ukraine, Czech Republic and Slovakia. Since 1996 to 1999 he was Vice-President of Pliva Management Board. Since April 2000 he is the President of Podravka Management Board. He has been a member of numerous councils, associations and boards, including several supervisory boards of Croatian and foreign companies. He was President and founder of the Croatian Business Council for Sustainable Development and Executive Vice-President of EGA (the European Generic Medicine Association) and president to the Executive Board for the Croatian Employers Association since 2004 till 2005. From 2001 he is a member of the Board of National Competitiveness Council of Croatia and from 2005 he is the President of that Board. He received several awards for his achievements in management and entrepreneurship, and was decorated by the President of the Republic of Croatia for his contribution to the development of the Croatian economy.

Marko Ećimović
Supervisory Board Deputy President
(till 22 July 2008)
Mr. Ećimović was born in 1947. He graduated in 1969 at the Faculty of Economy in Osijek and in 1999 completed the postgraduate scientific studies at the same faculty. He started his career in Podravka in 1970 as planner- analyst. From 1975 till 1979 he was director of the Organisation and Distribution Sector and from 1979 till 1983 director of the Investment Planning Sector. He was director of RO Podravka - Belupo from 1983 till 1986 and from 1989 till 1991 member of the Management Board of Podravka responsible for economy, accounting and information technology. Mr. Ećimović was advisor to the president of the Management Board of PODRAVKA d.d. from 1991 till 1996 and since 1998 he has been advisor for the Financial Sector. He was especially engaged in the company evaluation and transformation process as job holder during the period from 1990 till 1994. Mr. Ećimović has won several public honours and awards for social and economic development.

Ksenija Horvat
Supervisory Board Deputy President
(since 22 July 2008)
Ms. Ksenija Horvat was born in 1966 in Koprivnica where she finished secondary commercial school in 1984 and since then has been employed in PODRAVKA d.d. as officer in the claim settlement department. In 2000 she graduated from two year post-graduate studies of economy at the Faculty of Economy in Zagreb and was appointed purchasing officer in retail for the Croatian market. Since 2005 she has been studying journalism part time at the Faculty of Political Science. In the academic year 2000/2001 she completed the course of SSSH (Independent Trade Union of Croatia) Centre for Industrial Dialogue. In April 2001 Ms. Horvat was appointed head union representative of the PPDIV Union of Podravka d.d. and in July the same year, coordinator of the PPDIV Union for the Podravka Group, which position she also holds in the new term of office after the last elections in 2003. Since Employee Council elections in 2005, she is deputy president of the Employee Council of Podravka d.d. for the second term of office.

Dražen Sačer
Supervisory Board Member
Mr. Sačer was born in 1951. He graduated from the University of Zagreb School of Medicine. He completed his postgraduate study in the area of rheumatology at the same school. He gained his work experience in the Public Health Institute in Koprivnica, in general hospital "Dr. Tomislav Bardek" in Koprivnica and in private medical practice. He is currently working at his own private office. He published a dozen research papers, he participated in numerous congresses, symposiums and seminars in Croatia and abroad. He is the physician of the Podravka handball club from 1988 and a member of the PODRAVKA d.d. share holders association Assembly since 2000. He worked for two terms as a member of the Central committee for the Croatian Red Cross and since 1996 he is the president of the Red Cross association of Koprivnica.

Dubravko Štimac
Supervisory Board Member
Mr. Štimac was born in 1966 in Novska. He graduated from the Faculty of Economy and Business in Zagreb in 1992. From that same faculty he received his MA in 1997, Organisation and management course. He was an independent sales clerk at Zagrebačka tvornica papira (Zagreb paper factory) d.o.o. from September 1993 till September 1994. From September 1994 till November 1997 he worked as an independent officer in foreign trade at PBZ Investholding d.o.o. where he became the manager of the foreign trade sector. From March 1998 till June 1998 he worked as an assistant director of the Securities center at Privredna banka Zagreb d.d. where he became director of the Securities Ward at the same bank. In January 2001 he became the project manager of the retirement reform at Privredna banka Zagreb d.d. From October 2001 he is the president of the Board of PBZ CROATIA osiguranje d.d., the association for managing obligatory retirement fund. In 1995 and 1996 was a part time lecturer at the Faculty of Economy and Business in Zagreb, subject International economy. He authored several articles and research papers, he participated and spoke at several foreign and domestic conferences

with subjects on capital markets.

Franjo Maletić
Supervisory Board Member
Mr. Franjo Maletić was born in 1951 in Ferdinandovac, Municipality of Đurđevac. He graduated at the Faculty of Law in Zagreb and from 1972 till 1983 he worked for Sloga Export Import. He was director at JAT (Yugoslav Airlines), from 1983 till 1987 of JAT Zagreb and from 1987 till 1991 JAT Canada. During the period from 1991 till 1993 Mr. Maletić was director of INA TOURS, from 1993 till 2000 director of Golden Marketing and from 2000 till 2001 assistant director of Večernji list. Currently, he is president of the Management Board of Vjesnik d.d.

Boris Hmelina
Supervisory Board Member
Mr. Hmelina was born in 1945 in Zagreb where he completed his primary and secondary school. He graduated from the Faculty of Economy and Business, University of Zagreb. In March 2000 he passed the state examination for bankruptcy commissioner at the Ministry of Justice, Public Administration and Local Self-government. From 1970 till 1975 he was assistant director of the General Affairs and Human Resources Department at the company "Nikola Tesla" Zagreb and until 1977 head of the General Affairs and Human Resources Department of UP Borongaj. From 1977 till 1979 Mr. Hmelina was commercial director at the Freshwater Fishing Board of Yugoslavia and from 1979 till 1988 director of the agency Naftagas-promet Novi Sad for Croatia, Slovenia and Bosnia and Herzegovina. During the period from 1988 till 1991, Mr. Hmelina was commercial director at CHROMOS, factory for synthetic resin, Zagreb where from 1991 till 1997 he performed the duties of president of the Management Board. Since 2002 he has been bankruptcy commissioner of many trade companies and in the year 2003 founded (and became director) Hmelina and Associates, a public trade company for performing bankruptcy commissioning services.

Josip Pavlović
Supervisory Board Member (till 28 May 2008)
Mr. Pavlović was born in 1977 in Koprivnica. He graduated from the Faculty of Economy and Business in Zagreb in 1999. He was employed at PODRAVKA d.d. that same year as a planer and controller, and since 2001 he is working as resources procurement manager. Since 2002 to 2003 he worked as a director in loans management, and since 2003 he is the director of the Treasury Sector. In 2008 he becomes a member of Podravka Management Board.

Damir Felak
Supervisory Board Member (till 23 December 2008)
Mr. Felak was born in 1965 in Zagreb. He graduated from the Faculty of Forestry in Zagreb in 1990. That same year he was employed as a trainee at the Forest estate "Mojca Birta OOUR", Forest exploiting. During his training year he worked in Koprivnica and in Ludbreg forestry. From 1991 till 1997 he walked his beat in Sokolovac forestry. In 1997 he was elected deputy prefect of Koprivnica-Križevci county in charge for economy and he carried that duty until 2001 when he returned to work for "Hrvatske šume" ("Croatian Forests") to Sokolovac forestry where he again walked his beat. That same year he transferred to the position of research assistant for forest exploiting in "Uprave šuma" (Forest management), Koprivnica branch. In 2005 he was appointed manager of Sokolovac forestry, the position he holds today.

Milan Artuković
Supervisory Board Member (till 22 July 2008.)
Mr. Artuković was born in 1934 in Klobuk near Ljubuški, Bosnia and Herzegovina. He graduated from the Faculty of Economy and Business in Zagreb. Before coming to Franck he worked for Badel, Zagreb. From the total number of 45 years of service, he spent 32 years at Franck, as managing director for 28 years and 3 years as commercial director. Mr. Artuković is director of IVERO Consulting d.o.o., the majority owner of Franck, and president of the Supervisory Board of Franck.

Goran Gazivoda
Supervisory Board Member (till 22 July 2008)
Mr. Gazivoda was born in 1949 in Zagreb. He won his master's degree from the Faculty of Economy and Business of Zagreb in the field of economic science in 1978. From 1975 till 1977 he worked on export jobs (Astra Mašinoimpex trgovina Zagreb) and during the period from 1977 till 1978 on international credit transactions, loan approvals and client operations (Ljubljanska Banka, Zagreb). From 1978 till 1982 he was assistant director of the Ljubljanska banka - London Office. In the period from 1982 till 1986 he led the affairs of the international credit department at Ljubljanska banka, Ljubljana. From 1986 till 1996 he was the deputy president of LBS Bank - New York responsible for strategic business planning in the marketing and credit department. From May till October 1996 he was the representative / managing director for operations in Zagreb - Creditanstalt New York, responsible for opening the Bank's business in Zagreb. From 1996 till 1997 he was branch office director of the Creditanstalt Zagreb Office. During the period from January 1998 till December 1999 he was deputy president of the Management Board of Bank Austria Croatia d.d. Zagreb and from 2000 till 2001 president of the Management Board of Bank Austria Creditanstalt Croatia d.d. Zagreb. During the period from 2001 till 2003 Mr. Gazivoda was president of the Management Board of HVB Bank Croatia d.d. From 2003 till 2004 he was deputy president of the Management Board of Splitska banka d.d. Since April 2004 he is deputy president of the Management Board of HVB Splitska banka d.d., member of the Supervisory Board of RTL d.o.o. and member of the Executive Board of the Croatian International Chamber of Commerce and chairman of the General Assembly of the Croatian Association of Banks.

Karmen Antolić
Supervisory Board Member
Ms. Antolić was born in 1959 in Novigrad Podravski. In 1986 she graduated from the University of Zagreb School of Medicine. In 1994 she specialized Internal medicine, afterwards finishing an education on ultrasound diagnostics for internal organs, Postgraduate Course of the European Society of Gastrointestinal Endoscopy (ESEG) and the course for permanent education of candidates for medical court experts in practice. She works today as a doctor of internal medicine in a private internal medicine clinic. She participated in many studies and projects. She is a member of the Croatian Society of Gastroenterology, Hypertension Association, vice-president for Koprivnica branch of HSS political party and Management Board President for pharmacies in Koprivnica.

Nikola Gregur
Supervisory Board Member
Mr. Gregur was born in 1953 in Koprivnica. He graduated from the Faculty of Economy and Business in Zagreb. Since 1978 he has been working in Sloga Koprivnica shoe factory, and his last position there was assistant director for accounting and finance. Since 1990 he is the Municipal Assembly President for Koprivnica municipality and the war president of Koprivnica municipality Emergency center. After the county was formed in 1993 he becomes vice-prefect and remains in that position till 1997 when he is the prefect of the Koprivnica-Križevci county, carrying that duty till 2001. In 2002 he is an adviser to Belupo Management Board President, and since 2004 he is the director to Croatia osiguranje d.d. Koprivnica branch office.

Damir Kovačić
Supervisory Board Member
Mr. Kovačić was born in 1965 in Sisak. He has a PhD in Biotechnical sciences, agronomy, agrarian economics field, at the Faculty of Agronomy in Zagreb. Since 3rd December 1990 he works as a non-regular professor at the Faculty of Agriculture at Zagreb University, Institute of Agricultural Marketing. He participated in many development and research projects. He is the head of the Institute of agricultural marketing, head of the Village, Agriculture and Food Board of the Professional Council of the Croatian Peasant Party (HSS), President of the Croatian Society of Agro-economists (one term), Vice-president of the Croatian Society of Agro-economists (two terms), Member of the Parliament's Committee for Agriculture and Forestry as representative of scientific, professional and public workers (2002 - 2003) and the member of the Croatian Society of Agro-economists.

Branko Vuljak
Supervisory Board Member
Mr. Vuljak was born 28 August 1955 in Đelekovec. He graduated from Koprivnica high-school, and in 1981 he received his bachelor's degree from the FER Faculty of Electrical Engineering in Zagreb. Afterwards he completes General Management Program at IEDC Bled School of Management, Podravka's Management Academy, Leeds Metropolitan University and University of Cambridge (BEC Vantage). He is employed at Podravka in 1981 as an engineer at the computer center, in 1996 was appointed director of that department and in 1997 is transferred to the Procurement department where he works to this day as Central Procurement Sector director.

MANAGEMENT BOARD MEMBERS BIOGRAPHIES

Zdravko Šestak
Management Board President (since 22 July 2008)
Mr. Šestak was born in 1968 in Koprivnica. In the year 1992 he graduated from the Faculty of Electrical Engineering at University of Zagreb. Among many seminars he also finished IEDC Bled School of Management and acquired the Professional Diploma in Retailing Management studies at the Leeds Metropolitan University. He started his employment with Podravka in 1993 as system engineer in Podravka's electronic data processing centre. He continued in Research and Development on implementing the information system. From 1998 till 2000 Mr. Šestak worked as assistant director of the project for constructing and establishing the new business-information system at the Podravka Group. Apart from working on this project, from 1997 till 2001, he acted as assistant director of the Information Technology Department. Subsequently, he was transferred to the position of Business Intelligence director in the Business Development Sector. From 2002 till 2004 Mr. Šestak was the executive director of the Efficiency project and head of the project for the reorganisation and transformation of the Podravka Group. He was appointed director of the Information Technology Sector and Business Surveillance Sector in mid 2004. Since 2005 Mr. Šestak was performing the duties of Podravka Management Board member, and as of 22 July 2008 he is acting as Management Board President.

Miroslav Vitković
Management Board Deputy President (since 22 July 2008)
Mr. Vitković was born in 1967 in Koprivnica. He graduated from the Faculty of Food Technology in 1992. He finished the IEDC Bled School of Management and attended many professional seminars. After completing his studies, he started his employment with Podravka, where he has been working ever since. At Podravka Mr. Vitković performed the duties of import officer, sales director of Podravka International - Prague, and sales director of Podravka International - Bratislava. Since 2001 he was executive director for the markets of Croatia and South-East Europe. Since 2003 till 2008 Mr. Vitković has been performing the duties of Podravka Management Board member, and in July 2008 he becomes Deputy President of Podravka's Management Board.

Saša Romac
Member of the Board
Mr. Romac was born in 1968 in Zagreb. In 1994 he graduated from the Faculty of Food Technology at University of Zagreb. He completed the course for business administration and management at the University of Minnesota Minneapolis. After completing his studies he found employment at Chromos boje i lakovi d.d. in Zagreb where among other jobs he worked as commercial representative for Chromos in Moscow. From 1996 till 1997 Mr. Romac worked for Herbos d.d. Sisak as director of the paints and veneering production program. Subsequently he found employment with KUK GmbH Reid Austria where until the year 2002 he occupied the position of director of the branch office for Croatia, Bosnia and Herzegovina and Slovenia with headquarters in Zagreb. He is employed at Podravka in 2002 as executive director for the Nestle program and commercial goods and in 2004 takes over the duties of director of the Commercial Partnership Management Sector. Since 2005 Mr. Romac has been performing the duties of a member of Podravka Management Board.

Darko Marinac
Management Board President (till 21 July 2008)
Darko Marinac was born in Zagreb in 1950. In 1973 he graduated from the Faculty of Engineering, University of Zagreb. In 1975 he started working in Pliva. Since 1990 to 1992 he was head of R&D at Pliva. He established and managed Pliva's companies in Ukraine, Czech Republic and Slovakia. Since 1996 to 1999 he was Vice-President of Pliva Management Board. Since April 2000 he is the President of Podravka Management Board. He has been a member of numerous councils, associations and boards, including several supervisory boards of Croatian and foreign companies. He was President and founder of the Croatian Business Council for Sustainable Development and Executive Vice-President of EGA (the European Generic Medicine Association) and president to the Executive Board for the Croatian Employers Association since 2004 till 2005. From 2001 he is a member of the Board of National Competitiveness Council of Croatia and from 2005 he is the President of that Board. He received several awards for his achievements in management and entrepreneurship, and was decorated by the President of the Republic of Croatia for his contribution to the development of the Croatian economy.

Dragan Habdija
Member of the Board (till 22 July 2008)
Mr. Habdija was born in 1955 in Koprivnica. He graduated from Faculty of Economy and Business in Zagreb in 1979. He finished IEDC Bled School of Management and attended many professional seminars. Since he completed his studies he has been employed at Podravka. His employment with Podravka started as officer for planning investments and strategic development at the Institute of Podravka, and afterwards he occupied the function of head of the economic-financial service of Belupo, the director of which he was from 1983 - 1984. From 1984 until 1986 Mr. Habdija was director of the Marketing Sector of Belupo and later director of Fermentation and Pharmaceuticals. He became director of Belupo in 1991 and from 1992 performed the function of the Marketing director at Podravka. He occupied the function of director of the Planning, Controlling and Pricing Sector within the business program of Branded Food from 1997 until 2000. Subsequently he performed the duties of the executive director for the restructuring of Podravka for one year after which, in 2001, he became executive director of Podravka's strategic business area Vegeta and Podravka Dishes. Since 2003 Mr. Habdija has been performing the duties of member of the Management Board of Podravka d.d.

Goran Markulin
Member of the Board (till 22 July 2008)
Mr. Markulin was born in 1973 in Koprivnica and in 1997 he graduated from Faculty of Economy and Business in Zagreb. In the year 2000 he won his masters degree at the same faculty in the scientific postgraduate studies of Foreign Trade. Along with many professional seminars he finished IEDC Bled School of Management and the Professional Diploma in Retailing Management studies at the Leeds Metropolitan University. Mr. Markulin started his employment with Podravka in 1998 and worked in Marketing as product manager and head of the marketing team for the group of processed fruit products. In the year 2000 he was transferred from Marketing to the head of industrial analysis in the Business Development Sector. At the beginning of 2001 he was appointed executive director of

the Business Development Sector later renamed into Strategic Development Sector. Since 2005 Mr. Markulin has been performing the duties of member of the Management Board of Podravka d.d.

Josip Pavlović
Member of the Board
Mr. Pavlović was born in 1977 in Koprivnica. He graduated from the Faculty of Economy and Business in Zagreb in 1999. He was employed at PODRAVKA d.d. that same year as a planer and controller, and since 2001 he is working as resources procurement manager. Since 2002 to 2003 he worked as a director in loans management, and since 2003 he is the director of the Treasury Sector. In 2008 he becomes a member of Podravka Management Board.

Marin Pucar
Member of the Board
Marin Pucar was born in 1970 in Zadar. He graduated from the Faculty of Economy and Business, Zagreb University. In addition to many educational programs and courses, he acquired a Professional Diploma in Retailing Management at the Leeds Metropolitan University and he attended Podravka's Management Academy POMAK. Having finished his studies, Mr. Pucar got his first job at Gavrilović meat industry where he was engaged in various working positions: from salesman, product manager to brand manager. He found his employment at Podravka in 2001 as the Sales Director at Podravka's Meat Industry Danica. After that he became the Director of Sales, Marketing and Development. In early 2003 he was appointed director of Meat Program for Croatia and Southeast Europe, and in late 2003 he became a Sales Executive for Croatian Market. He retained this job until July 2008, when he was appointed member of Podravka's Management Board.

PODRAVKA GROUP BUSINESS IN 2008

Sales per Strategic Business Areas (SBA)

in millions of HRK

Item no.	SBA	Jan-Dec 2008 Amount	Jan-Dec 2008 %	Jan-Dec 2007 Amount	Jan-Dec 2007 %	Index 2:4
0	1	2	3	4	5	6
1	Food and beverages	2,924.5	79.9	2,810.6	81.9	104
2	Pharmaceuticals	729.0	19.9	614.3	17.9	119
3	Services	6.5	0.2	6.9	0.2	93
	Total	**3,660.0**	**100.0**	**3,431.8**	**100.0**	**107**

Sales per product groups

in millions of HRK

Item no.	PRODUCT GROUP	Jan-Dec 2008 Amount	Jan-Dec 2008 %	Jan-Dec 2007 Amount	Jan-Dec 2007 %	Index 2:4
0	1	2	3	4	5	6
1	**Podravka brands**	**2,456.7**	**67.1**	**2,250.6**	**65.6**	**109**
	Podravka dishes	809.4	22.1	732.3	21.3	111
	Food seasonings	691.5	18.9	666.0	19.4	104
	Meat products and canned fish	405.9	11.1	359.8	10.5	113
	Baby food, sweets and snack	331.9	9.1	309.2	9.0	107
	Beverages	218.0	5.9	183.3	5.4	119
2	**Commercial goods**	**177.2**	**4.9**	**306.6**	**8.9**	**58**
3	**Other (Food and beverages)**	**290.6**	**7.9**	**253.4**	**7.4**	**115**
4	**Pharmaceuticals**	**729.0**	**19.9**	**614.3**	**17.9**	**119**
5	**Services**	**6.5**	**0.2**	**6.9**	**0.2**	**94**
	Total	**3,660.0**	**100.0**	**3,431.8**	**100.0**	**107**

Sales per Podravka Group Markets

in millions of HRK

Item no.	MARKET GROUP	Jan-Dec 2008 Amount	Jan-Dec 2008 %	Jan-Dec 2007 Amount	Jan-Dec 2007 %	Index 2:4
0	1	2	3	4	5	6
1	Croatia	1,946.8	53.2	1,937.7	56.5	100
2	South-East Europe	786.7	21.5	640.2	18.6	123
3	Central Europe	524.6	14.3	459.9	13.4	114
4	Western Europe, overseas countries and Orient	235.3	6.4	226.4	6.6	104
5	Eastern Europe	166.6	4.6	167.6	4.9	99
	Total	**3,660.0**	**100.0**	**3,431.8**	**100.0**	**107**

Structure of operating costs

in millions of HRK

Item no.	COSTS / EXPENSES	Jan-Dec 2008 Amount	Jan-Dec 2008 %	Jan-Dec 2007 Amount	Jan-Dec 2007 %	Index 2:4
0	1	2	3	4	5	6
1	Cost of goods sold	2,174.2	61.4	2,016.0	58.8	108
2	Selling and distribution expenses	1,010.8	28.5	1,013.9	29.6	100
3	General and administrative expenses	358.6	10.1	398.4	11.6	90
	Total	**3,543.6**	**100.0**	**3,428.3**	**100.0**	**103**

Profitability of Podravka Group

in millions of HRK

Podravka Group	Jan-Dec 2008	Jan-Dec 2007	Change (2/3)
1	2	3	4
Sales	3,660.0	3,431.8	7%
Gross profit	1,485.8	1,415.9	5%
EBITDA	318.5	255.8	25%
EBIT	158.5	92.3	72%
Net profit	44.6	18.3	144%
Profit margins (%)			
Gross margin	40.6	41.3	-70bp
EBITDA margin	8.7	7.5	120bp
EBIT margin	4.3	2.7	160bp
Net margin	1.2	0.5	70bp

Profitability per Strategic Business Areas

in millions of HRK

SBA	Food & beverages			Pharmaceuticals		
	Jan-Dec 2008	Jan-Dec 2007	Change (2/3)	Jan-Dec 2008	Jan-Dec 2007	Change (5/6)
1	2	2	4	5	6	7
Sales	2,924.5	2,810.6	4%	729.0	614.3	19%
Gross profit	1,063.1	1,038.3	2%	422.6	377.5	12%
EBITDA	168.2	106.0	59%	150.2	149.6	0%
EBIT	48.5	-23.6	306%	109.9	115.9	-5%
Net profit	-27.6	-60.5	54%	72.2	78.9	-8%
Profit margins (%)						
Gross margin	36.4	36.9	-50bp	58.0	61.5	-350bp
EBITDA margin	5.8	3.8	200bp	20.6	24.4	-380bp
EBIT margin	1.7	-0.8	250bp	15.1	18.9	-380bp
Net margin	-0.9	-2.2	130bp	9.9	12.8	-290bp

REPORT ON PODRAVKA SHARE TRADE IN 2008

Podravka's share is listed in the official market of Zagreb Stock Exchange since 1998 and its symbol is PODR-R-A. It is one of the most solvent shares and the share with the highest realized yearly turnover at the Zagreb Stock Exchange, which places it among the regional blue chip shares in the food processing industry.

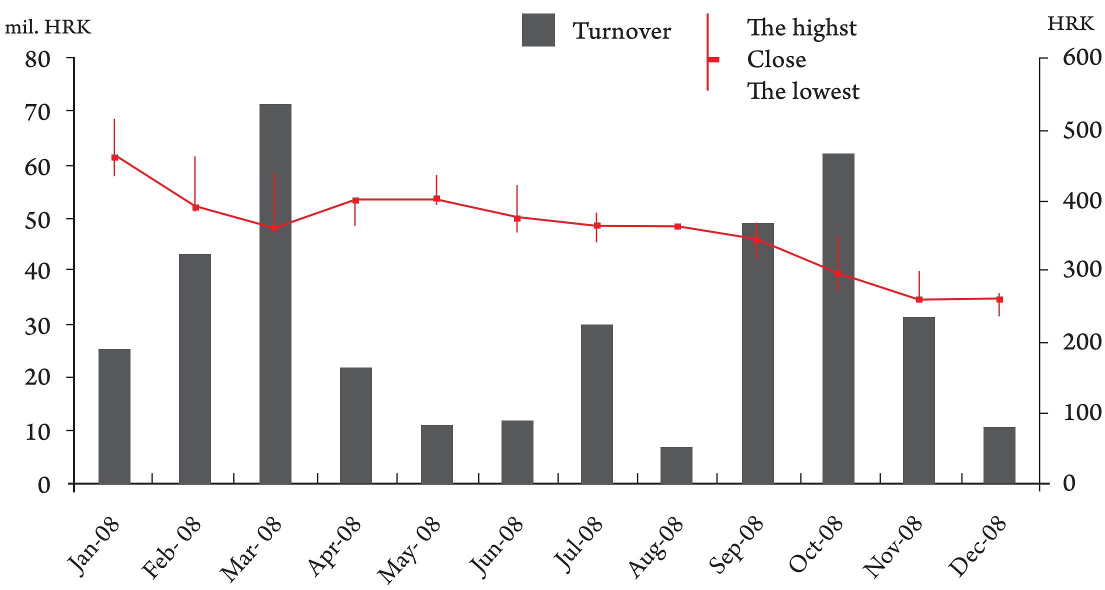
Turnover

Podravka's share realized in 2008 a turnover of HRK 375,504,024 with traded volume of 1,056,501 shares, which was in comparison to 2007 lower for HRK 331.9 mil. The highest turnover was realized in the first and the fourth quarter, and total turnover of these two quarters makes for 65% of total sales realized in 2008. As for analysis per months, the highest turnover was realized in March and it was HRK 71,4 mil. with traded volume of 178.712 shares.

Podravka's share turnover per quarters in 2008

	Turnover in HRK	Volume
1st quarter	139,989,965	339,648
2nd quarter	45,053,382	115,456
3rd quarter	86,230,757	244,756
4th quarter	104,229,920	356,641
Total	**375,504,024**	**1,056,501**

Turneover and price of Podravka's share



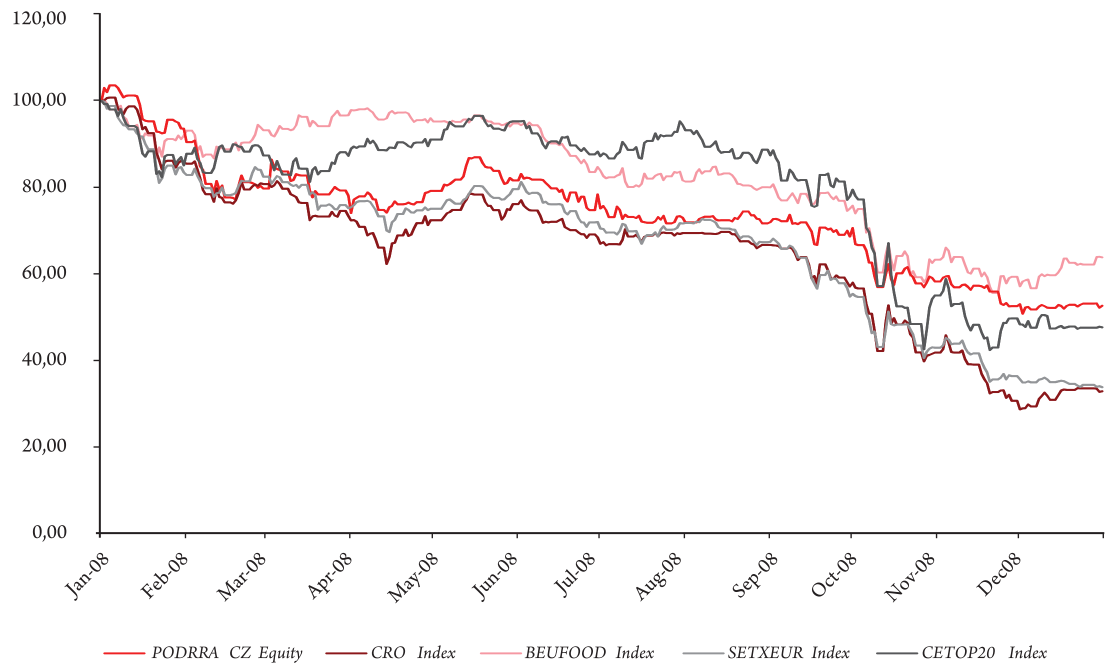
Price

The lowest selling share price in 2008 was HRK 237.00 and it was marked in December, while the highest price amounting to HRK 514.00 was marked in January 2008. WACP of Podravka share in 2008 was HRK 361.14, which is 32.53% decrease compared to 2007.

Podravka's share over three year period

	2008	**2007**	**2006**
Number of shares	5,420,003	5,420,003	5,420,003
The highest price	514.00	645.00	495.00
The lowest price	237.00	440.00	315.01
Close price	261.00	510.00	470.01
WACP	361.14	535.25	399.69
Market capitalization (mil. HRK)	1,414.60	2,764.20	2,547.50
EPS	8.41	3.40	11.24
P/E	31.03	150.00	41.83
P/BV	0.7	1.4	1.5
Dividend	-	-	5

Comparison of Podravka's share and stock market indices (base index (100)= 1 Jan 2008)



CROBEX (CRO Index) is the official index of the Zagreb Stock Exchange, weighed by the free float market capitalisation of shares traded at the Zagreb Stock Exchange.
BEUFOOD index (Bloomberg Europe Food Index) is a capitalization-weighted index of the leading food stocks in Europe.
SETX index (South-East Europe Traded Index) unites the share price trends of the 14 largest companies listed on stock exchanges of Zagreb, Ljubljana, Bucharest and Sophia and it is issued by the Vienna Stock Exchange.
CETOP20 index (Central European Blue Chip Index) consists of 20 blue chip shares listed in the stock markets of Budapest, Prague, Warsaw, Zagreb, Ljubljana and Bratislava.

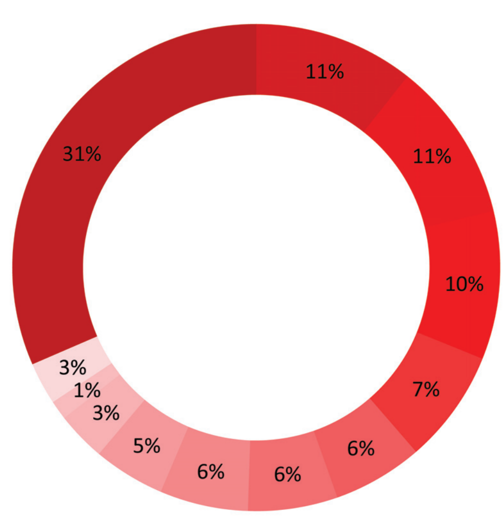
Stock market indices

Due to high solvency, realized average daily turnover and large number of shares in free float, Podravka's share is listed in several stock market indices. Apart from Croatian indices CROBEX and CROEMI, the share is listed in two regional indices of Wienna Stock Market – SETX Index and CROX Index, as well as in regional Dow Jones – STOXX Sub Balkan 30 Index.

Portion of Podravka's share in stock market indices on 31 Dec 2008	
CROBEX	6.48%
CROEMI	8.75%
SETX	1.66%
CROX	6.20%

Recommendations of analysts	
RAIFFEISEN BANK	HOLD
ERSTE BANK	ACCUMULATE
HYPO-ALPE-ADRIA BANK	HOLD
FIMA	HOLD

Ownership structure at 31 Dec 2008



FIMA AMI LTD	576,880
HFP/HZMO	575,598
HFP	533,226
UNICREDIT BANK AUSTRIA AG	408,370
AZ OMF	324,291
KAPITALNI FOND D.D.	321,804
PBZ CROATIA OSIGURANJE OMF	317,610
ERSTE PLAVI OMF	256,939
RAIFFEISEN OMF	176,512
SLAVONSKI ZIF	69,433
TREASURY ACCOUNT	152,677
OTHER SHAREHOLDERS	1,706,663
NUMBER OF SHARES	**5,420,003**

HFP – Croatian Privatization Fund, HZMO - Croatian Institute for Pension Insurance, OMF - Mandatory Insurance Fund, ZIF – Closed-end Investment Fund.

Own shares in 2008

	Share purchase				Share release			
	Number of shares	Value	Average price	Nominal amount	Number of shares	Value	Average price	Nominal amount
1st quarter	27,850	12,896,376	463.07	8,355,000	6,540	3,378,368	516.57	1,962,000
2nd quarter	500	190,000	380.00	150,000	6,955	3,490,645	501.89	2,086,500
3rd quarter	2,000	742,767	371.38	600,000	8,000	3,987,760	498.47	2,400,000
4th quarter	70,149	19,759,953	281.69	21,044,700	2,500	1,016,225	406.49	750,000
Total in 2008	**100,499**	**33,589,096**			**23,995**	**11,872,998**		

Status on 1 Jan 2008	76,173
Status on 31 Dec 2008	152,677

PODRAVKA GROUP DEVELOPMENT

General strategic goals

- In the next three years it is Podravka's goal to achieve organic growth above average of the industry in which it competes
- To be the leading food company on defined strategic markets
- To be recognizable supplier of pharmaceutical products
- To be number 1 or number 2 in defined strategic programs on strategic markets
- To achieve the efficiency level above the average of its industries in the markets where Podravka does business and thus realize the interests of its owners
- Enable improvement of cash flow necessary for operational business and company stability with better financial management of Podravka Group
- Reduce costs of procurement, sales and distribution, general and administrative costs and thus enable larger investments into marketing, research and product development. That way we can ensure long term future of our strongest brands as generators of company's value and wanted return for its owners.

Strategic guidelines

- Differentiating from other companies by the ability to understand consumer needs, by own brands, by high product and business processes quality
- Sales growth will be achieved through organic growth, development of our key brands, strategic alliances in distribution and other parts of the value chain and acquisitions
- Elevating the level of company's operative efficiency is an important mid-term goal where we will strive to rationalize costs in the entire value chain
- In dealings with the owners, the goal is to grow the return on capital and share value
- Further internationalization, i.e. the extension of the product range in strategic business areas
- Podravka seeks to be innovative with high share of new products in the market
- Building corporate culture, satisfied and motivated employees in line with Podravka's key values is a precondition of a successful development, and employees are the biggest value of this company and the source of its competitive advantage
- In strategic programs Podravka aims to own modern production technology
- With its activities Podravka wishes to contribute to development of general social community.

Programs and markets for accomplishing growth

Podravka's key goal is to develop in highly differentiated, strategic business programs such as food seasonings, soups, semi-(ready) meals, baby food, meat products, fish products, sweets, beverages and pharmaceutical industry. Building strong brands in these programs will enable long-term profitability of this company. Podravka's position differentiates depending on the market. In South East Europe where it is traditionally a strong brand it aims to be the leading and biggest food company headquartered in the region, while in the markets of Central and Eastern Europe it aims to maintain the leading position in the category of food seasonings and offer a series of products in the selected categories. In the markets of Western Europe and overseas countries Podravka offers its products in ethno-segment, and it seeks to offer its products to consolidated retail market. In Croatia, South East and Central Europe we expect the highest growth contribution by launching new products and subcategories within strategic programs. Significant growth is expected also in the markets of Eastern and Western Europe where not all potentials of Podravka' strongest brand Vegeta have yet been used. On the overall level, additional growth Podravka will achieve inorganically - by acquisitions and strategic alliances in the region of South East, Central and Eastern Europe with the base goal of strengthening its position in strategic programs in which it operates in the stated markets.

RISK FACTORS

Business environment risk

Business environment risk is determined by political, economic and social conditions of a country, but also of a region, having effect on business successfulness of domestic companies. Among other things, as influenced by GDP growth rates, changes in standard of living, degree of political, economic and social development significantly determine the development of food industry. Political risk of an individual country includes all risks related to possible political instability, and in its extremity includes the integrity and existence of a country. Considering current internal and external political relations, Croatia is a stabile, parliamentary democratic country whose main goal in foreign affairs is successful integration into European Union. Croatia started the accession process by signing the Stabilization and Accession Agreement, and now Croatia is rapidly fulfilling its political, economic and legal criteria for membership in the European Union (Copenhagen criteria). The component of this agreement relating to strengthening of regional cooperation has an immediate effect on strengthening the stability of the outer region, which is one of the preconditions for successful economic development. Following the goal of successful accession to the European Union, a significant part of its activities Croatia has focused on reforms necessary to successfully align with legal legacy (acquis communautaire) of the European Union, as well as to the development and maintenance of intense partnership relations with member countries of the European Union. It is to be expected that the adjustment process will affect the business of individual companies in the food industry as well, and in various aspects of their activities, such as quality control, environment protection, health protection they will need to be in compliance to criteria and standards of the European Union.

Industrial risk

As a complex group with business in several economic branches, Podravka is faced with challenges present in the food and meat industry, beverages industry and pharmaceutical industry both in the country and abroad. Food and meat industry are faced with changes in the consumer and diet habits, changes in life style and all the greater development of consumer awareness on own diet habits. Changes stated place before the meat and food industry a challenge of a continuous adjustment of product range to the needs and demands of the consumers as well as to the advancement of quality of the existing products, which on the other hands requires innovation, investments into technological development, production processes and human resources. One also needs to consider duration and costs of registering new products on domestic and foreign markets. As a company that achieves a large share of its profit in foreign markets, Podravka is faced with strict criteria of quality control while exporting. But continuous growth of sales on

foreign markets is an indicator of successful compliance to quality criteria and standards of the countries into which we are exporting and where we have our production facilities. Including Croatia into regional and world economic and political organizations, accession to the European Union, opens up a range of possibilities for Podravka, but also places before it specific demands where food industry needs to adjust rapidly and is being exposed to a wider competition. Considering the wide range of products divided into groups, i.e. segments, each segment is exposed to specific risks effecting the successfulness of business and financial results of Podravka. Vegeta is Podravka's most important strategic product recognizable around the world. The significance of sales revenues from this product presents a potential risk for Podravka in case of drastic production reduction and/or sales drop on domestic/foreign market. Business results achieved in beverages segment are significantly influenced by weather that greatly determines the level of water consumption and consumption of other nonalcoholic beverages. Therefore sales in this segment are subject to oscillations in years of bad weather.
Belupo pharmaceutical industry faces the risk of the pharmaceutical industry. The most prominent problems in this segment are prices of medicines, changes in the list of the Croatian Health Institute, problems of collecting due payments from variety store suppliers, facing reforms of the health system, reduction of profit margins and ecological risk, i.e. the problem of waste management and old medicines management. To be more successful in facing these risks, Podravka devotes special attention in monitoring world trends in food industry and is trying to keep up with the latest technological achievements, offering to the market innovated and new products with are taking a growing share in the newly acquired value.

Competition risk
Importance of the food industry, food and beverages production sector, is also emphasized by the information on high share of this sector in the total industrial production. Food and beverages production traditionally takes the highest share in the total processing industry. Food industry is featured by constant and growing demand which is among other a consequence of growing standard of living and changes in the eating habits, causing also a powerful competition within the sector. The potential and achieved growth rates in the food and beverages industry have largely affected the increase of competition in this sector. Besides, the present globalization process, political stability, development and liberalization of the markets, as well as increased standards of living have greatly affected the removal of market boundaries and increase in the competition degree in the food industry. Additional effect of domestic companies being exposed to competition from large food processing companies derives from approaching to the European Union. Also, aligning legislature with acquis communautaire in candidate countries, and the countries included in the stabilization and accession process, completely removes the obstacles in accession of these markets to the inner market of the European Union and place new standards and norms. The result of the stated processes is a high exposure of local food processing companies to the global competition, creating simultaneously new business opportunities for local companies by fast opening of foreign markets. On the other hand, accession to the European Union and opening of the foreign markets to domestic companies such as Podravka which already has a significant presence on foreign markets, opens the possibilities of further development, new business opportunities, strengthening of market positions in the markets of the region. Also, to emphasize, food processing industry is also determined by local consumer and eating habits and needs, so domestic food processing companies, such as Podravka, that continuously work on advancing the quality of its products and extension of its range, they manage not only to maintain, but also to strengthen its business and market position in the domestic market. As a company with a defined development and investment strategy, Podravka has the strengths needed to successfully adapt to competition demands of the domestic and foreign markets.

Risk of trade
Over the past several years, various multinational chain stores have entered the Croatian market. This also means increased concentration of products by foreign producers in domestic market. Besides, many domestic food processing companies have their own chains, i.e. distribution and sales capacities.

For the products from domestic food processing companies to find their place in the commercial chains and stores, it takes a clear and recognizable marketing strategy and continuous strengthening of product brands in order to intensify the demand for products and thus strengthen the negotiating power of the food industry toward trade. Since the development of the distribution segment is headed in the direction of shifting the key role to the consumer, trading companies need to take into consideration the comments from end-consumers. This creates a space for companies such as Podravka, to win a fair position in the commercial chains due to their fine marketing campaign. Podravka has developed partnership relations in commercial chains and together with them works on recognizing changes in consumer demands and preparing their products to satisfy those demands.

Business risk
Corporations are daily exposed to business risk that includes the risk of bad business and reduced company stability. Bad business decisions, bad financial results of an individual segment, non-efficient cost control and similar, increase the business risk, and can result in instability of company business. Podravka systematically uses certain indicators through which it tracks business risk. Any significant deviation of solvency, profitability and indebtedness indicators from their normal values presents a signal of increased business risk, requiring appropriate measures to be taken in order to ensure stability in company's business. Activities that Podravka performs in its business are exposed to various financial risks, including the effect of market prices change, changes in exchange rates and interest rates. A potential risk of Podravka's business is in the fact that Podravka Group does business in various countries with various currencies as legal payment means. Compliant to valid accounting policies in Croatia and International Accounting Standard no. 21, Podravka needs to reevaluate the total monetary positions of its branch offices outside Croatia, where the reporting currency is other than Kuna, into own reporting currency, i.e. Croatian Kuna. Due to stated exposure to Kuna-Euro exchange rate movement (a large portion of Podravka's financial commitments has a currency clause in Euro) and the minority depends on Kuna-US Dollar movement, Podravka's business results can in certain measure be influenced by changes in the stated currencies. Managing the solvency risk implies maintaining sufficient funds and turn capital and ensuring the availability of financial means in the form of credits. Financial assets that could potentially lead Podravka Group into a credit risk includes mostly cash, claims from buyers

and credits given. Podravka Group keeps its cash in large banks, therefore the risk is negligible. Claims from buyers are shown reduced for reservations for suspicious and disputable claims. Credits given mostly relate to claims from associated companies. Podravka Group revenues and cash flow from its business activities depend on changes of interest rates on the market. Most of the loans are shown in relation to variable interest rates related to EURIBOR, WIBOR, POR, BRIBOR, PRIBOR and ZIBOR.

Ecologic risk

Just like any other manufacturer, as part of its production activities, Podravka also creates waste, part of which is also hazardous waste. Podravka is therefore subject to various regulations related to health, occupational safety, environment protection and waste management regulations. Podravka has a developed environment protection policy which, among other things, defines the policy of waste water management, waste management, hazardous waste management, laboratory controls, and so on, which minimises the risk of significant costs due to violating existing laws and regulations.

SUSTAINABLE DEVELOPMENT

Podravka works in compliance to norms and demands of socially responsible business, i.e. in line with the business principles of long term sustainable development. Guided by the stated principles, in its every day operations Podravka promotes and encourages the application of norms and demands proposed by socially responsible business and compliance of economy with developmental goals of the community, and preservation of the environment for future generations. Podravka's mission is to do business in the interest of clients and consumers, and targeted activities are taking place within the Croatian Business Council for Sustainable Development (HR PSOR) to influence the existing legislature, to exchange of practice experiences and encouraging HR PSOR members to actions with the goal of improving the standards of the social community. Reductions of energy consumption which are continuously being performed directly influence prices per unit of product, reducing at the same time the greenhouse gasses emissions, contributing thus to environment protection. We apply the same approach to water as one of our most precious resources, where the trend of reduced water consumption is constantly present, meaning also reduced costs and less waste water released into the environment. Allowed emissions control is under constant supervision by our expert services and authorized government institutions, and in line with that Podravka completely fulfills all obligations proscribed by laws and regulation on allowed concentrations of released emissions, and the substances that damage the ozone layer are completely removed from use. We are constantly working on innovating the quality and declarations of our products, compliant to regulations in the markets where we operate. Like other successful and reputable world companies, Podravka's continuous goal is to contribute to the advancement of society and life of the citizens, i.e. socially responsible business. In all the environments where Podravka operates it has proved to be a desirable social partner that takes care of the community.

Environment

In its business Podravka has committed to sustainable development and it pays special attention to environment protection. Company's efforts are evident in the existing production activities, development of new products and technologies, building new production facilities, raw material and power sources consumption, waste collecting and recycling as well as emissions in the environment. Podravka's base goals are:

- educate in order to raise awareness, and use business processes to advance the relation of employees to the environment and increase of efficiency,
- rationalize the use of packaging materials,
- reduction of direct and indirect energy consumption,
- taking various activities to reduce water consumption,
- increase efficiency of production facilities to reduce greenhouse gasses,
- efficient waste and waste water management.

Podravka is a recognizable company that produces food products and medicines which are of a standard quality, safety and efficiency. Apart from assuring the satisfaction of clients and creating profit, another important segment of the business policy is constant care about the environment. Products development process is based on improving industrial processes, developing new products and advance the existing ones that keep track of the latest trends in the area of food and satisfying the demands, wishes and needs of our consumers. Developing new, good quality products that satisfy daily intake of energy and nutrients, and appropriately declaring these products, Podravka influences forming regular dietary habits of the consumers. Sensoring and nutritionism department performs internal and external testings on the consumers, as requested by different development and marketing departments with the purpose to develop products that with its organoleptic quality should satisfy the groups of consumers to whom they are intended. Parallel with that, daily activities are performed to advance the existing products compliant to the latest trends in technology and raw materials. Using raw materials that have a beneficial effect on human organism and the development focused on functional products, we care for the health of our consumers. Closely cooperating with the consumers, we try to adapt and optimize raw materials in order to get finished products that are of better quality and appropriateness. Optimizing production processes we try to develop products that have a direct or indirect effect on savings of material, energy and water, reducing thus the cost of resources in production. When developing products we also respect the following principles:

- good manufacturing practice (GMP) effecting the final product, with the purpose of ensuring the quality of medicines and food products,
- HACCP system,
- ISO 9001:2000 norm,
- other norms and regulations concerning food industry (IFS, BRC, NSF, Halal).

Social community

Owing to the values saturated through the company culture, socially responsible behaviour is a constituent part of Podravka's identity and business activities. From its very beginnings Podravka has been aware of its influence and responsibility towards the social community into which it is deeply rooted. Implementing concrete projects, for more than half a century Podravka contributes to development and elevating the standards of living of its employees, but also of the wide social community. Engaging own potentials the company activates connections and exchange of knowledge, experiences and information, creates and stimulates initiatives and projects with the purpose of balancing economic development, improving the quality of living and environment protection. Podravka's engagement to satisfy the needs of the social community in which it operates is portrayed in the three following key areas:

- healthy living,
- continuous education of the employees and encouraging excellence and creativity in education and science,
- concern for the social community in which we operate.

Initiatives

Podravka's engagement includes connecting and permeating with its activities on three levels: global, national and local through participating in the work of various entities and organizations:

- international: World Business Council for Sustainable Development (WBCSD), International Business Leaders Forum (IBLF), Global Compact, European Organization for Quality (EOQ), European Foundation for Quality Management (EFQM),
- national: Croatian Employers Association (HUP), Croatian Chamber of Economy (HGK), National Competitiveness Council (NVK), Croatian Business Council for Sustainable Development (HR PSOR), Work group for preparing negotiations for EU accession,
- local: institutions of the Town of Koprivnica, Koprivnica-Križevci county, and other.

Initiatives relating to areas of stimulating innovativeness and competitiveness through exchange of knowledge of the expert and scientific community (institutes and faculties, EU funds and other) or to encourage initiatives, entrepreneurship and knowledge exchange by participating in the projects of local (Local Agenda 21; sustainable development strategy for the town of Koprivnica), regional (Regional operative plans for the development of the County) and general national interest (Croatian Academy of Science and art; legislature, work groups for preparing negotiations of Croatian accession to European Union) and other.

CORPORATE GOVERNANCE REPORT

In compliance to the basic purpose of its existence relating to ensuring growth and successful business, growth value for the shareholders, the Management Board and the Supervisory Board of Podravka d.d. suport through their business also the principles of corporate governance. Podravka d.d. continuously tracks reforms in the area of corporate governance and strives to constant advancement of the relations with the shareholders, investors and overall public, introducing high standards in the mutual communication. Pursuant to the valid legislature of the Republic of Croatia, and taking into account OECD guidelines for corporate governance, Podravka d.d. has accepted Corporate Governance Code for aligning the rights of all shareholders and an open, professional and transparent approach in relations with the investors and overall public.

Key principles that Podravka d.d. takes into account are:

- rights and obligations of the shareholders,
- equal treatment of all shareholders,
- obligations and responsibilities of the Management and Supervisory Board of Podravka d.d.,
- reporting and transparency.

Aware of the importance and ethically founded behaviour of the business entities as part of the Croatian economy, Podravka d.d. accepted the Code of Ethics in its business both in text and in its contents as verified by the Croatian Chamber of Economy Assembly. As a signer of this Code, Podravka d.d. is obliged to respect the ethics principles in all of its business relations and has committed to respect the principles of ethics in all of its business relations and as such has accepted the obligation of working in compliance to the principles of responsibility, efficiency, transparency, quality, working in good faith and respecting the principles of good business conduct with partners, business and social environment and own employees. As recommended in the Code of Ethics in Business, Management Board of Podravka d.d. verified and passed its own Code of Ethics of Podravka Group. The intention was that Podravka and all of its associated companies in country and abroad develop their own principles of ethics, based on the principles of modern corporate governance.

General Assembly

At the General Assembly the shareholders get to vote in person, through their proxy or an authorized representative. Shareholders entered in the computer system of the Central Depository & Clearing Company who apply for participation at the General Assembly seven days at the latest before the General Assembly was being held have the right of participation and vote at the General Assembly. General Assembly can pass a valid resolution if it is supported by at least 30% (thirty percent) of the number of shares that get the right to vote. The president and deputy president to the General Assembly are elected by the General Assembly for the period of four years, as proposed by the Supervisory Board. General Assembly of Podravka d.d. held on 22 July 2008 passed a resolution on electing the president and deputy president to the General Assembly for the period of four years, where Branko Vuljak was elected president to the General Assembly, and its deputy president Tomo Trošelj. Shareholders, proxies and authorized representatives get the right to vote at the General Assembly using voting ballots marked with the number of votes pertaining to an individual participant at the General Assembly.

Resolutions passed by the General Assembly are also available at Podravka's web site in the Investors/Corporate governance section.

Supervisory Board

Supervisory Board has eleven members, eight of which are elected by the shareholders at the General Assembly by the three-quarter majority of all votes given. Two members of the Supervisory Board are named by the Croatian Privatization Fund, while one member is named by the Worker's Council as stipulated by the provisions of the Labour Law. Supervisory Board Members are named to the period of four years. Term for each Supervisory Board member starts as of the day of their election, i.e. appointment. Supervisory Board supervises business operations of the Group, and on issues in their domain Supervisory Board passes resolutions based on the Rules of Procedure of the Supervisory Board.

Supervisory Board members in 2008

1 Jan – 22 Jun 2008		since 22 Jun 2008	
Mladen Vedriš (till 28 May)	president	Darko Marinac	president
Marko Ećimović	deputy president	Ksenija Horvat	deputy president
Dražen Sačer	member	Boris Hmelina	member
Dubravko Štimac	member	Franjo Maletić	member
Damir Felak	member	Dražen Sačer	member
Josip Pavlović (till 28 May)	member	Dubravko Štimac	member
Boris Hmelina	member	Karmen Antolić	member
Milan Artuković	member	Nikola Gregur	member
Goran Gazivoda	member	Damir Kovačić	member
Ksenija Horvat	member	Branko Vuljak	member
Franjo Maletić	member	Damir Felak (till 23 Dec 2008)	member

Based on the Rules of procedure of Podravka d.d Supervisory Board, at its 36th session held on 3rd September 2009, the Supervisory Board of Podravka d.d. passed a resolution on appointing the Audit, Remuneration and Nomination committee, electing to the Committee the following members:

Darko Marinac	president
Ksenija Horvat	member
Karmen Antolić	member
Dubravko Štimac	member
Franjo Maletić	member

Audit, Remuneration and Nomination Committee is authorised to monitor the course of financial reporting, to track the efficiency of internal control system, internal audit and risks management system, supervise the audit of annual financial and consolidated statements, track independence of independent auditors or auditing companies that perform the audit, especially contracts with added services, discuss plans and annual report issued by the internal audit, as well as significant issues related to this area, provide recommendations to the General Assembly on election of the independent auditor or auditing company, communicate with the public on bonus payments, severance payments and share options, suggest to the Supervisory Board amendments of contracts held by the Management Board members.

Internal audit is also responsible for estimating the level of risk management in business processes, reviewing the efficiency of the internal control systems with the purpose of advancing risk management and compliance with procedures, testing and analyses of compliance of the existing business systems with adopted policies, plans procedures, laws and regulations that can have a significant influence on business reports and implementation of standards of individual processes, monitoring the implementation of resolutions and conclusions from the Management and Supervisory Board. It is also in charge of estimating the reliability and integrity of financial and business information. Apart from the stated functions, internal audit is also responsible for reviewing the method the assets of the company are safeguarded, as well as for cooperation with the external auditors on performed audits or on specific subjects as requested. Internal Audit informs the Management and the Supervisory Board, and its findings and recommendations help management improve processes, preventively eliminate potential risks or reduce risks to an acceptable level.

Management Board

Management Board of Podravka d.d. is formed of a president, deputy president and three members. President, deputy president and members of the Board are named for the period as determined by the Supervisory Board (five years at the most) and they can be reelected. Start date of a term is on the day the Management Board is elected. Members of the Management Board manage the business affairs of the Company, and the way they operate and divide tasks among each other is determined by the Rules of Procedure of the Management Board.

Management Board members in 2008

1 Jan – 22 Jun 2008		since 22 Jun 2008	
Darko Marinac (till 21 July)	president	Zdravko Šestak	president
Miroslav Vitković	member	Miroslav Vitković	deputy president
Dragan Habdija	member	Saša Romac	member
Goran Markulin	member	Josip Pavlović	member
Zdravko Šestak	member	Marin Pucar	member
Saša Romac	member		

CODE OF CORPORATE GOVERNANCE

ANNUAL QUESTIONNAIRE FOR 2008

All questions contained in this questionnaire relate to the period of one year to which also the annual financial statements relate.

Company	PODRAVKA prehrambena industrija d.d.	
1. Does the company have its www pages on Internet?	YES/NO	Detailed
if yes, on which address?	YES	www.podravka.hr
If not, way?		
2. Are the semiannual, annual and quarterly reports made available to the shareholders?		
at the company's headquarters (If not, why?)	YES	
on the company's www pages on Internet (If not, why?)	YES	
in the English language (If not, why?)	YES	
3. Did the company prepare the calendar of important events? (If not, why?) If yes,	NO	The company publishes timely reports to the public on important events and announces them to Zagreb Stock Exchange and HANFA and on company's web site.
has the calendar of important events been published on the company's web pages on Internet? (If not, why?)		
has the calendar of important events been orderly and timely updated? (if not, why?)		
4. Does the company announce the list of shareholders and update it at least twice a month? (If not, why?)	YES	
5. Is company in relationship of cross-ownership of shares with the other company or companies? If yes,	NO	
which companies are these?		
are the data on cross-ownership publicly announced and how? (If not, why?)		
6. Does the company announce in the annual statement data on securities issued by the company which are owned by the Members of the Supervisory Board or the Management Board of the company? (If not, why?)	YES	
7. Does the company publish on its web pages the records on securities issued by the company which are owned of the Members of the Supervisory Board or the Management Board of the company, and are these records regularly (within 48 hours) updated? (If not, why?)	YES	
8. Does the company determine and publicly announces the risk factors? (If not, why?)	YES	

Question	Answer	Explanation
9. Did the company establish the mechanisms to ensure:		
that the persons who dispose with or come into contact with preferred information understand the nature and importance of these information and limits with regard to it? (If not, why?)	YES	
the supervision over the flow of information and the possible misuse thereof (If not, why?)	YES	
10. Does every share of the company give one vote? If not,	YES	
have all relevant disclosures pertaining to non-voting shares been publicly and timely released? (If not, why?)		
how are these explanations released?		
11. Have the candidacies of all candidates for membership in the Supervisory Board being elected at the Assembly or being appointed, including their CVs, been announced on Internet? (If not, why	YES	
12. Does the company treat all shareholders in the same manner? (If not, why?)	YES	
13. Did the company issue new shares? If yes,	NO	
Has the participation in increase of the share capital of the company been made possible to all shareholders, in proportion to their shares in the up-to-then share capital of the company, and thus in form of transferable shares with the right of preemption, in order to protect the interests of shareholders who at the time of issuance may not register and purchase new shares? (If not, why?)		
Was the intention of new shares issuance publicly announced at least 10 days prior to the date determined as the date for establishing the status in the register of shares which will be relevant for determination which shareholders are entitled to pre-emption right at purchase of newly issued shares? (If not, why?)		
14. Did the company acquire or release new shares (treasury notes). If yes, was this acquisition or release performed	YES	
on the open market? (If not, why?)	YES	
in the manner not giving privileges to single shareholders or investors or groups of shareholders, i.e. investors? (If not, why?)	YES	
15. Was the issuance of the power of attorney for voting at the General Assembly made most simplified and with not strict formal requests? (If not, why?)	YES	
16. Did the company provide for shareholders, who due to whatever reason are not in a position to vote at the Assembly by themselves, without additional expenses, the proxies who are obliged to vote in compliance to the shareholders' instructions? (If not, why?)	YES	

17. Did the Management Board of the company, at convocation of the Assembly, set the date according to which the status in the register of shares will be established, which will be relevant for determination of realizing voting rights in the Assembly of the Company in the manner that such date will be set prior to holding the Assembly and may be at the most 7 days prior to holding the assembly? (If not, why?)	YES	
18. Does the decision on payment of dividend or dividend advance include the date on which the person being the shareholders becomes entitled to dividend payment and the date or period when the dividend will be paid out? (If not, why?)	YES	
19. Is the date on which the person becomes entitled to payment of dividend or dividend advance at least 10 days after the date of passing the decision? (If not, why?)	NO	The company did not pay any dividends.
20. Does the date of payment of dividend or dividend advance fall at least 12, and at most 30 days after the date of passing the decision? (If not, why?)	NO	The company did not pay any dividends.
21. Did the period of payment of dividend or advance dividend last for more than 10 days? (If yes, why?)	NO	The company did not pay any dividends.
22. Were at the payment of dividend or advance dividend some shareholders favored? (If yes, why?)	NO	
23. Was the decision on payment of dividend or advance dividend which determines the aforementioned dates announced and submitted to the stock exchange at least 2 days upon its making?	YES	
24. Were the agenda of the Assembly, as also all relevant records and papers with the explanations referring to the agenda, announced on the web pages of the company on Internet, and put at disposal to the shareholders in the company's premises from the date of the first public announcement of the agenda? (If not, why?)	YES	
25. Were the agenda of the Assembly and all relevant records and papers announced on the web pages of the company on Internet also in the English language? (If not, why?)	YES	
26. Have the conditions been set for participation at the General Assembly and usage of the voting right (with no regard to whether permitted in compliance to the law and statute) such as for example registering participation in advance, certification of powers of attorney and similar? (If yes, why?)	YES	Registration of participants in advance as a condition of participating at the General Assembly is stipulated due to a large number of small shareholders, with the intention of maintaining order and regularity of the session being held.
27. Does the report to be submitted by the Supervisory Board to the General Assembly include, apart from the Content of the report defined by the law, the evaluation of the overall business efficiency of the company, activities of the Management Board of the company and the special review of its cooperation with the Management Board? (If not, why?)	YES	
28. Were the shareholders given the opportunity to participate and especially to vote at the General Assembly of the company by modern communication technology devices? (If not, why?)	NO	There are no preconditions for such participation of shareholders at the General Assembly.
29. Did the Management Board of the company publicly announce the decision of the General Assembly of the company, as also the records of the possible action for annulment of these decisions? (If not, why?)	YES	

30. Did the Supervisory Board take its decision on the master plan of its activities including the list of regular meetings and records to be regularly and timely put at disposal to the Members of the Supervisory Board? (If not, why?)	YES	
31. Did the Supervisory Board make the internal rules of conduct? (If not, why?)	YES	
32. State the names of the Supervisory Board's members.		Karmen Antolić (from 22 July 2008), Milan Artuković (till 22 July 2008), Marko Ećimović (till 22 July 2008), Damir Felak (till 23 December 2008), Goran Gazivoda (till 22 July 2008), Nikola Gregur (from 22 July 2008), Boris Hmelina, Ksenija Horvat, Damir Kovačić (from 22 July 2008), Franjo Maletić, Darko Marinac (from 22 July 2008), Josip Pavlović (till 28 May 2008), Dražen Sačer, Dubravko Štimac, Mladen Vedriš (till 28 May 2008), Branko Vuljak (from 22 July 2008)
33. State for each member of the Supervisory Board in which other companies he/she is the member of the Supervisory Board of the Management Board. If some of these companies are considered to be competitive with the company, state it.		There is no obligation of submitting these information.
34. Is the Supervisory Board of the company mostly composed of independent members? (If not, why?)	YES	
35. Which members of the Supervisory Board are independent?		All of them.
36. Are there in the company a long term succession plan? (If not, why?)	NO	In modern business it is hard to predict and to relate employees with long term succession plans.
37. Has the reward or the remuneration received by the Members of the Supervisory Board in entirety or partly been determined according to their contribution to the efficiency of the company? (If not, why?)	NO	The remuneration is of a fixed character and in no part does it depend on efficiency of company's business.
38. Is the remuneration to the Members of the Supervisory Board:		
determined by the decision of the General Assembly:	YES	
determined in the Articles of Association of the Company		
determined in some other manner (if yes, in which?)		
39. Have the detailed records on all remunerations and other earnings from the company or from the with the company related persons of each individual member of the Supervisory Board of the company, including the structure of such remuneration, been publicly announced? (If not, why?) (If yes, where?)	NO	Total amounts paid to all Supervisory Board members are publicly announced.
40. Does every Member of the Supervisory Board informs the company on all changes with regard to his/her ownership of shares of the company, and thus latest on the next business day, upon occurrence of such change? (If not, why?)	YES	

41. State all activities in which the Members of the Supervisory Board or with them related persons participated on one side and the company or with it related persons on the other side.		There were no such activities.
42. Were all activities in which the Members of the Supervisory Board or with them related persons participated and the company or with it related persons:		
concluded on the market basis (especially with regard to terms, interests, guarantees and similar)? (If not, why and which?)	NO	There were no such activities.
clearly stated in the reports of the Company (If not, why and which?)	NO	There were no such activities.
confirmed by the independent assessment by expert persons being independent in relation to the participants of the subject transaction? (If not, why and which?)	NO	There were no such activities.
43. Are there contracts and agreements between the Member of the Supervisory Board and the company? If yes,	NO	
were they priory approved by the Supervisory Board? (If not, why?)		
were the important events of all such contracts and agreements included in the annual report? (If not, why?)		
44. Did the Supervisory Board establish the Appointment Committee? (If not, why?) If yes,	YES	
did the committee estimate the composition, size, membership and quality of work of the Supervisory Board and the Management Board, and draft the corresponding recommendations for the Supervisory Board? (If not, why?)	NO	The estimate was initiated by appointing the Board in late September 2008.
did the committee make the evaluation of the knowledge, skills and experience of the individual members of the Supervisory Board and inform the Supervisory Board thereof? (If not, why?)	NO	The estimate was initiated by appointing the Board in late September 2008.
did the committee analyze the problems related to planning of the Supervisory Board's and the Management Board's continuity? (If not, why?)	YES	
did the committee analyze the policy of the Management Board with regard to employment of high management? (If not, why?)	NO	The estimate was initiated by appointing the Board in late September 2008.
45. Did the Supervisory Board establish the Remuneration Committee? If yes,	YES	
Is the majority of members of the committee from the independent members of the Supervisory Board? (If not, why?)	YES	
Did the committee propose to the Supervisory Board the policy of remuneration of the Management Board which has to relate to all types of remuneration, and in particular to the fixed part of the remuneration, the variable part of the remuneration is related to business efficiency, retirement plan and severance pay? (If not, why?)	NO	The committee participated in making the remuneration decisions, but till this point it did not make any remuneration policies, along with any retirement or severance payments plans and did not make any proposals to the Supervisory Board.
With regard to the variable part of the remuneration related to business efficiency, did the committee's proposal include the recommendations for determination of objective criteria of efficiency assessment? (If not, why?)	NO	There was no variable share.

Did the committee propose to the Supervisory Board the remuneration for single members of the Management Board in compliance with the company's remuneration policy and evaluation of activities of a single director? (If not, why?)	YES	
Did the committee propose to the Supervisory Board the appropriate form and content of the contract with the members of the Management Board? (If not, why?)	NO	The committee accepted the existing form and content of the Contract with Board Members and made no changes or amendments to it.
Did the committee follow the amount and the structure of remuneration to the high management and give general recommendations to the Management Board with regard to that? (If not, why?)	NO	The company's structure of remunerating high management is through key performance indicators.
Did the committee with regard to the incentive part of the remuneration to the Management Board, in case it is composed of options on shares or other arrangements based on acquisition of shares, analyzed the general policy of such type of remuneration and suggested to the Supervisory Board appropriate solutions, as also analyzed records being published about it in the annual report, prior to announcement?	NO	
46. Did the Supervisory Board establish the Audit Committee? (If not, why?) If yes, ,	YES	
Is the majority of the committee members from the independent members of the Supervisory Board? (If not, why?)	YES	
Did the committee follow the integrity of the financial information of the company, and in particular, the correctness and consistency of the accounting methods used by the company and the group to which it belongs, including the criteria for consolidation of financial reports of the companies which belong to the group? (If not, why?)	YES	
Did the committee evaluate the quality of the internal audit system and risk management, with the objective to identify and make public the major risks to which the company has been exposed (including the risks related to compliance with the provisions) in the appropriate manner, and to manage them in the appropriate way? (If not, why?)	YES	
Did the committee work on ensuring efficacy of the internal audit system, especially through preparing recommendations at selection, appointment, repeated appointment and dismissal of the head of internal audit department and with regard to resources at his/her disposal, and assessment of the head's actions at the occasion of findings and recommendations of the internal audit? (If not why?).	YES	
If there is no internal audit function within the company, did the committee make the evaluation of the need for establishment of such function? (If not, why?)	NO	Internal audit function existed.
Did the committee give to the Supervisory Board its recommendations with regard to election, appointment, repeated appointment and change of the external auditor, and on terms and conditions of his/her engagement? (If not, why?)	YES	
If there is no internal audit function within the company, did the committee make the evaluation of the need for establishment of such function? (If not, why?)	YES	

Did the committee supervise the independency and objectiveness of the external auditor, in particular with regard to rotations of the authorized auditors within the audit company and remunerations the company is paying for the external auditors' services? (If not, why?)	YES	
Did the committee follow the nature and the quality of services which are not part of the audit, but the company does receives them rendered from the audit company and the persons related to it? (If not, why?)	YES	
Did the committee analyze the efficacy of external audit and actions of the high management with regard to recommendations made by the external auditor? (If not, why?)	YES	
Did the committee examine the circumstances related to dismissal of the external auditor and give the appropriate recommendations to the Supervisory Board? (if it came to such dismissal)? (If not, why?)	NO	There was no such dismissal.
Has the committee open and unlimited communication with the Management Board and the Supervisory Board? (If not, why?)	YES	
To whom is the committee accountable for its work?		To the Supervisory Board.
Has the committee open and unlimited communication with the internal and external auditor? (If not, why?)	YES	
Did the Management Board submit, so far, to the Audit Committee:		
timely and periodical presentation of financial statements and related documents prior to public announcement of these data (If not, why?);	YES	
records on changes in accounting principles and criteria (If not, why?);	YES	
accounting procedures accepted for the majority of actions (If not, why?);	YES	
each significant deviation between the book and real value per single items (If not, why?);	YES	
all correspondence with the internal audit department and independent auditors (If not, why?)	NO	Only the correspondence relevant to the company business was submitted.
Did the Management Board inform the Audit Committee on methods used for booking significant and unusual transactions and business events when the bookkeeping presentation of such events may be approached in different manners? (If not, why?)	YES	
Did the Audit Committee discuss with the independent auditor the issues related to:		
change or retaining of the accounting policies and criteria, (If not, why?)	YES	
change of regulations (If not, why?)	YES	
important estimates and conclusions in preparing financial reports (If not, why?)	YES	

methods of risk assessment and results (If not, why?)	YES	
highly risky areas of activities (If not, why?)	YES	
noticed larger deficiencies and significant deficiencies in internal audit (If not, why?)	NO	No larger deficiencies were noted.
impact of external factors (economic, legal and industrial) to financial statements and audit procedures (If not, why?).	YES	
Did the Audit Committee provide supply of high quality information from the dependent and associated companies, as also third persons (such as expert advisors)? (If not, why?)	YES	
47. Has the documentation relevant for work of the Supervisory Board been submitted on time to all members? (If not, why?)	YES	
48. Have all decisions made on the Supervisory Board's meetings been recorded in the minutes together with the voting results, stating how each member voted? (If not, why?)	YES	
49. Did the Supervisory Board prepare the evaluation of its work in the past period including the validation of contributions and competency of each member, as also of the joint work of the committee, evaluation of the work of committees established by the Supervisory Board, and the evaluation of the reached in relation to the target objectives of the company?	NO	
50. State the names of the members of the Management Board.		Zdravko Šestak, Miroslav Vitković, Josip Pavlović, Marin Pucar, Saša Romac.
51. Are there rules for work of the Management Board defining the issues with regard to:		
area of activities and objectives,	YES	
rules of procedure,	YES	
rules of solving conflict of interest,	NO	Conflict of interest was defined by management contracts.
secretary of the Management Board,	YES	
holding meetings, passing decisions, agenda, preparing and content of the minutes and submission of documents,	YES	
cooperation with the Supervisory Board	YES	
(If not, why?)		
52. Did the company announce the statement of the policy of remuneration of the Management Board and the Supervisory Board as part of the annual statement? (If not, why?)	NO	Annual statement announces only the total amounts of remuneration to the Supervisory Board and the Management Board, but not the remuneration policy statement.

53. If there is one, does the Remuneration policy statement include the following parts:

significant changes in relation to the remuneration policy in comparison with the prior year (If not, why?)		
explanation of the relative portion and significance of the fixed and variable parts of remuneration (If not, why?)		
sufficient information on efficiency criteria on the fulfillment of which the entitlement to acquisition of options on shares, shares or other form of variable portion of remuneration has been based (If not, why?)		
sufficient information on relation between the amount of remuneration and efficiency (If not, why?)		
basic ratios and reasons for distribution of annual bonuses or privileges which are not cash (If not, why?)		
summary review of contracts with the members of the Management Board which has to include the records on contract duration, notice periods and in particular on severance pays. Each form of remuneration for members of the Management Board and the Supervisory Board which includes options on shares and other rights to acquisition of shares or in case the remuneration based on the price of shares of the company must prior to becoming effective be approved by the General Assembly of the company. This approval relates to remuneration principles, and not to approving remuneration to single members of the Management Board or the Supervisory Board (If not, why?)		

54. Has the statement of the policy of remuneration of the Management Board been constantly announced through Internet on web pages of the company? (If not, why?)	NO	There is no formal document to determine remuneration policy.
55. Are detailed records on all earnings and remunerations which each member of the Management Board receives from the company publicly announced in the Annual report of the company? (If not, why?)	NO	Company law makes no obligation for the companies to make such announcement.
56. Are all forms of remunerations to the members of the Management Board and the Supervisory Board, including options and other benefits of the Management Board publicly announced by detailed single items and persons in the annual report of the company? (If not, why?)	NO	Company law makes no obligation for the companies to make such announcement.

57. Does the Statement of remunerations to the members of the Management Board include the following elements with regard to each member of the Management Board who filled this post in the year to which the statement relates:

total amount of the salary, with no regard to whether he/she has actually been paid out or not (If not, why?)		
remunerations or benefits received from associated companies (If not why?)		
remunerations in from of participation in profit or bonus and the reasons due to which they were paid out (If not, why?)		

any other additional remunerations paid out to the members of the Management Board for the activities they performed for the company out of the usual scope of activities of the member of the Management Board (If not, why?)		
the compensation paid out or which has to be paid out to the former member of the Management Board with regard to cease of filling the post during the year to which the statement relates (If not, why?)		
the total estimated value of the non-cash benefits which are considered the remuneration, but are not listed in the prior items (If not, why?)		
with regard to remuneration in shares or options on shares or other forms of remuneration based on acquisition of shares: number of options or shares approved by the company in the year to which the statement and the conditions for the usage thereof relates (If not, why?)		
number of options exercised in the year to which the statement relates, and for each of them, the number of shares and the price at which it was exercised, or the value of shares included in distribution to the members of the Management Board at the year end (If not, why?)		
number of options not exercised at the end of the year, the price at which they can be exercised, the exercise date and the main conditions pertaining to the exercise (If not, why?)		
each change related to the change of conditions for exercise of the existing options which occurred in the company in the year to which the statement relates (If not, why?)		
each loan (including the balance of debt and the interest rate), advance payment or guarantee in favor of the members of the Management Board from the with the company associated companies which are included into the consolidated financial report (If not, why?)		
58. Did every member of the Management Board inform the Supervisory Board of the company on all changes with regard to his/her ownership of the shares latest the next business day upon occurrence of such change with the obligation of the company to publicly announce such change in the shortest possible term? (If not, why?)	NO	There is no such obligation.
59. State all activities in which the members of the Management Board or with them related persons participated on one side and the company or with it related persons on the other side.		There were no such activities.
60. Were all activities in which the members of the Management Board or with them related persons participated:		
closed on the market basis (especially with regard to terms, interests, guarantees and similar)? (If not, why and which?)	NO	There were no such activities.
clearly stated in the reports of the company? (If not, why and which?)	NO	There were no such activities.

confirmed by the independent assessment of the expert persons being independent in relation to participants in the subject business? (If not, why and which?)	NO	There were no such activities.
61. Do the members of the Management Board have the significant portion in the companies which might be considered competitive with the company? (If yes, which, where and how many?)	NO	
62. Are the members of the Management Board the members of the Supervisory Boards of other companies? (If yes, state the names of these members of the Management Board, the firms of the companies in which they are the members of the Supervisory Boards, and the functions they fill in these Supervisory Boards).	YES	Zdravko Šestak - DANICA d.o.o. Supervisory Board President, BELUPO d.d. SB Deputy President, SLOGA d.d. SB Deputy President, Miroslav Vitković - DANICA d.o.o. SB member, PODRAVKA-LAGRIS a.s., PODRAVKA INTERNATIONAL USA Inc, Josip Pavlović - DANICA d.o.o. SB member, Marin Pucar - DANICA d.o.o. SB member, PODRAVKA LAGRIS a.s., PODRAVKA INTERNATIONAL USA, Saša Romac - DANICA d.o.o., ROTOPLAST SB member.
63. Does the company have the external auditor (If not, why?)	YES	
64. Is the external auditor of the company:		
in proprietary terms or in terms of interests related with the company (If yes, state in which manner)	NO	
renders to the company, by him/herself or through other persons, other services? (If yes, state which and how much does it cost the company)	YES	Provides smaller financial services to the company, which are financial wise of no significance.
65. Did the independent auditors directly inform the company on the following issues:		
discussion on the main accounting policy	YES	
important deficiencies and significant inadequacies in the internal audit,	NO	There were no such deficiencies.
alternative accounting procedures,	YES	
noncompliance with the Management Board, risk assessment, and	NO	There were no non-compliances.
possible analyzes of fraud and/or misusage.	NO	There were no such cases.
If they did not, why?		
66. Did the company publicly announce the amounts of the remuneration paid to the independent external auditors for the performed audit and other services rendered? (If not, why?)	NO	There is no such obligation of the company.
67. Does the company have the internal auditors and the established internal audit system? (If not, why?)	YES	

68. Do the investors have to possibility to request in written form and to timely get the relevant records from the Management Board of the company or from the person in the company entrusted with investors relations (If not, why?)	YES	
69. How many meetings did the Management Board of the company hold with the investors?		45
70. Has someone suffered negative consequences due to indicating to the supervisory bodies or authorities in the company or outside the company on deficiencies in application of regulations or ethical norms within the company? (If yes, why?)	NO	
71. Do all members of the Management Board and Supervisory Board agree that the statements stated in the answers to this questionnaire are at their best knowledge truthful in its entirety? (If not, state which members of the Management Board and the Supervisory Board do not agree, with which answers they do not agree and why).	YES	

PODRAVKA'S DEPENDENT COMPANIES

Name of subsidiary	Country of incorporation	Ownership interest in %	Principal activity
Belupo d.d., Koprivnica	Croatia	100.00	Production and distribution of pharmaceuticals
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100.00	Purchase and sale of goods; meal preparation and catering services
Danica d.o.o., Koprivnica	Croatia	100.00	Meat processing and production
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	Services
Lero d.o.o., Rijeka	Croatia	100.00	Fruit and vegetable juice and beverage production
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	Trade
Ital-Ice d.o.o., Poreč	Croatia	100.00	Ice cream manufacture
Sana d.o.o., Hoče	Slovenia	100.00	Wafers
Podravka d.o.o., Ljubljana	Slovenia	100.00	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100.00	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	100.00	Sale and distribution
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	Sale and distribution
Podravka-International Kft, Budapest	Hungary	100.00	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	100.00	Sale and distribution
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	Seasonings manufacture and sale
Podravka-International s.r.l., Bucharest	Romania	100.00	Sale and distribution
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	Rice production and sale
Podravka-International s.r.o., Bratislava	Slovakia	75.00	Sale and distribution
Podravka-International Inc. Wilmington	USA	100.00	Sale and distribution

PODRAVKA d.d. and Its Subsidiaries,
Koprivnica

CONSOLIDATED FINANCIAL STATEMENTS

At 31 December 2008
Together with Independent Auditor's Report

CONSOLIDATED FINANCIAL STATEMENTS

RESPONSIBLITY FOR THE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) which give a true and fair view of the state of affairs and results of the Podravka Group ('the Group') for that period.

After making enquiries, the Management Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Management Board continues to adopt the going concern basis in preparing the consolidated financial statements.

In preparing those financial statements, the responsibilities of the Board include ensuring that:

- suitable accounting policies are selected and then applied consistently;
- judgements and estimates are reasonable and prudent;
- applicable accounting standards are followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board is responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Group and must also ensure that the financial statements comply with the Croatian Accounting Law. The Board is also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Zdravko Šestak

Podravka d.d.
Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 30 March 2009

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

We have audited the accompanying consolidated financial statements of Podravka d.d., Koprivnica ('the Company') and its subsidiaries ('the Group'), which comprise the consolidated balance sheet as at 31 December 2008, and the related consolidated income statement, consolidated statements of changes in equity and of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Matters affecting the opinion

As discussed in Note 20 to the financial statements, on 20 December 2007 the Group, as lessee, entered into a sale and lease-back agreement for an item of asset under financial lease. According to International Accounting Standard 17 (IAS 17), any excess of sales proceeds over the carrying amount of an asset in a sale and lease-back transaction within a financial lease arrangement should not be immediately recognised as income; instead, it should be deferred and amortised over the lease term. The Group recognised the entire sales proceeds at the point of entering into the underyling agreement, which is not in accordance with IAS 17. Consequently, the results of the Group for the year ended 31 December 2008 are understated by HRK 2,867 thousand, deferred income is understated by HRK 40,058 thousand, whereas retained earnings are overstated by HRK 42,925 thousand as of 31 December 2008.

Opinion

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o., Zagreb
Branislav Vrtačnik, Certified Auditor

30 March 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of HRK)	Notes	2008	2007
Sales	5	3,660,034	3,431,826
Cost of goods sold	8	(2,174,215)	(2,015,956)
Gross profit		**1,485,819**	**1,415,870**
Investment revenue	6	25,546	22,623
Other gains, net	7	21,158	67,189
General and administrative expenses	9	(358,599)	(398,369)
Selling and distribution costs	10	(576,679)	(550,955)
Marketing expenses	11	(434,158)	(462,993)
Other expenses	12	(4,562)	(1,108)
Finance costs	15	(104,149)	(58,340)
Profit before tax		**54,376**	**33,917**
Income tax	17	(9,780)	(15,581)
Profit after tax		44,596	18,336
Attributable:			
To the equity holders of the parent	18	44,739	18,336
Minority interests	33	(143)	-
Earnings per share:	18		
- Basic		8.41	3.40
- Diluted		8.27	3.34

The accompanying accounting policies and notes form an inseparable part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of HRK)	**Notes**	**2008**	**2007**
ASSETS			
Non-current assets			
Property, plant and equipment	20	1,770,858	1,669,321
Goodwill	21	48,428	31,119
Other intangible assets	22	343,599	197,437
Deferred tax assets	17	44,552	35,491
Other financial assets	25	61,705	60,917
		2,269,142	**1,994,285**
Current assets			
Inventories	24	631,760	594,522
Trade and other receivables	26	1,435,538	1,153,886
Financial assets at fair value through profit or loss	27	23,539	6,163
Cash and cash equivalents	28	270,609	112,549
		2,361,446	1,867,120
Non-current assets held for sale	29	4,517	5,469
Total current assets		**2,365,963**	**1,872,589**
Total assets		**4,635,105**	**3,866,874**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	30	1,587,356	1,628,467
Reserves	31	83,458	138,641
Retained earnings	32	258,578	177,864
Attributable to the equity holders of the parent		**1,929,392**	**1,944,972**
Minority interest	33	34,113	-
		1,963,505	**1,944,972**
Non-current liabilities			
Financial liabilities at fair value through profit or loss	34	318,750	354,000
Long-term debt	35	597,572	113,498
Provisions	36	27,339	25,412
Deferred tax liability	17	8,356	642
		952,017	**493,552**
Current liabilities			
Trade and other payables	37	844,453	761,696
Short-term borrowings	35	858,455	649,216
Provisions	36	16,675	17,438
		1,719,583	**1,428,350**
Total liabilities		**2,671,600**	**1,921,902**
Total liabilities and shareholders' equity		**4,635,105**	**3,866,874**

The accompanying accounting policies and notes form an inseparable part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

in thousands of HRK	Notes	Share capital	Reserves	Retained earnings	Total	Minority interest	Total
Balance at 1 January 2007	30, 31, 32,33	**1,427,329**	**148,503**	**170,848**	**1,746,680**	**-**	**1,746,680**
Restatement of opening balance			134	(2,513)	(2,379)	-	(2,379)
Exchange differences (net gains recognised directly in equity)		-	8,205	-	8,205	-	8,205
Net profit for the year		-	-	18,336	18,336	-	18,336
Total recognised income for 2007			8,205	18,336	26,541	-	26,541
Purchase of treasury shares		(57,526)	-	-	(57,526)	-	(57,526)
Options exercised		11,106	-	-	11,106	-	11,106
Fair value of share options		8,682	-	-	8,682	-	8,682
Dividend approved		-	(25,703)	(1,305)	(27,008)	-	(27,008)
Transfer to other and legal reserves		-	7,502	(7,502)	-	-	-
Expiry of options on Company shares		238,876	-	-	238,876	-	238,876
Balance at 31 December 2007	30, 31, 32,33	**1,628,467**	**138,641**	**177,864**	**1,944,972**	**-**	**1,944,972**
Foreign currency translation adjustment			(19,208)		(19,208)		(19,208)
Net profit for the year		-	-	44,739	44,739	(143)	44,596
Total recognised income for 2008		-	(19,208)	44,739	25,531	(143)	25,388
Acquisition of subsidiaries		-	-	-	-	34,170	34,170
Exchange differences		-	-	-	-	86	86
Purchase of treasury shares		(33,738)	-	-	(33,738)	-	(33,738)
Sale of treasury shares		266	-	-	266	-	266
Options exercised		3,882	-	-	3,882	-	3,882
Fair value of share options		(11,521)	-	-	(11,521)	-	(11,521)
Transfer to other and legal reserves		-	7,838	(7,838)	-	-	-
Coverage of loss		-	(43,813)	43,813	-	-	-
Balance at 31 December 2008	**30,31, 32,33**	**1,587,356**	**83,458**	**258,578**	**1,929,392**	**34,113**	**1,963,505**

The accompanying accounting policies and notes form an inseparable part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of HRK)	2008	2007
Net profit	**44,596**	**18,336**
Income tax	9,780	15,581
Depreciation	160,024	163,516
Gains / (losses) on sale of non-current assets	209	(46,311)
Gains on sale of non-current assets held for sale	-	(1,810)
Value adjustment of current assets	12,387	14,282
Value adjustment of non-current assets	2,273	989
Value adjustment of available-for-sale assets	689	(224)
Value adjustment of investments	8,324	-
Value adjustment of capital gains	(19,246)	478
Increase in long-term provisions	1,726	3,405
Value adjustment of liabilities at fair value through profit or loss	(35,894)	(18,801)
Interest income	(16,561)	(16,810)
Interest expense	90,557	57,008
Write-off of given loans	-	3,593
Effect of changes in foreign exchange rates	1,981	5,006
Other items not affecting cash	(1,268)	(7,419)
Changes in working capital:		
Increase in inventories	(12,264)	(35,267)
Increase in trade receivables	(222,458)	(62,606)
Decrease in other current assets	40,076	143,147
Increase in trade payables	9,064	82,455
Increase in other liabilities	49,961	5,454
Cash generated from operations	**123,956**	**324,002**

The accompanying accounting policies and notes form an inseparable part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of HRK)		**2008**	**2007**
Cash flows from operating activities			
Cash generated from operations		123,956	324,002
Income taxes paid		(26,861)	(35,021)
Interest paid		(81,443)	(55,705)
Net cash from operating activities		**15,652**	**233,276**
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	42.4	(229,955)	-
Sale of equity interest		-	1,436
Payments made for property, plant and equipment, and intangible assets		(172,830)	(362,497)
Sale of tangible and intangible assets		14,272	73,757
Sale of non current assets held for sale		-	4,415
Long-term loans given and deposits		(14,181)	(56,000)
Repayment of long-term loans given and deposits		6,807	2,148
Purchase of trading securities		(33,700)	(3,010)
Sale of trading securities		8,000	
Short-term loans given and deposits		(149,618)	-
Repayment of short-term loans given and deposits		108,910	2,000
Interest received		-	1,326
Net cash from investing activities		**(462,295)**	**(336,425)**
Cash flows from financing activities			
Purchase of treasury shares		(33,738)	(57,526)
Sale of treasury shares		11,873	24,888
Proceeds from long-term borrowings		549,602	40,429
Repayment of long-term borrowings		(84,929)	(177,151)
Proceeds from short-term borrowings		1,017,018	965,276
Repayment of short-term borrowings		(855,123)	(679,328)
Dividends paid		-	(27,008)
Net cash from financing activities		**604,703**	**89,580**
Net increase / (decrease) in cash and cash equivalents		**158,060**	**(13,569)**
Cash and cash equivalents at beginning of year		112,549	126,118
Cash and cash equivalents at the end of year		270,609	112,549

The accompanying accounting policies and notes form an inseparable part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2008

NOTE 1 – GENERAL INFORMATION

Podravka prehrambena industrija d.d., Koprivnica (the Company) is incorporated in the Republic of Croatia. The principal activity of the Company comprises production of a wide range of foodstaffs and non-alcoholic beverages.

The Group is headquartered in Koprivnica, Croatia, Ante Starčevića 32.

As at 31 December 2008, the Company's shares were included in the Official Market (First Quotation) listing on the Zagreb Stock Exchange.

Corporate governance and management

General Assembly
The General Assembly of the Company consists of members representing the interests of Podravka d.d.:
President
Branko Vuljak

Members of the General Assembly are individual Company shareholders or their proxies.

Supervisory Board

Supervisory Board members in 2008:

President	Darko Marinac
Member	Ksenija Horvat
Member	Boris Hmelina
Member	Franjo Maletić
Member	Dražen Sačer
Member	Dubravko Štimac
Member	Karmen Antolić
Member	Nikola Gregur
Member	Damir Kovačić
Member	Branko Vuljak

Supervisory Board members in 2007:

President	Mladen Vedriš
Member	Ksenija Horvat
Member	Boris Hmelina
Member	Franjo Maletić
Member	Dražen Sačer
Member	Dubravko Štimac
Member	Marko Ećimović
Member	Milan Artuković
Member	Goran Gazivoda
Member	Damir Felak
Member	Josip Pavlović

Management Board in 2008, since 22 July 2008

President	Zdravko Šestak
Deputy President	Miroslav Vitković
Member	Saša Romac
Member	Josip Pavlović
Member	Marin Pucar

Management Board in 2007

President	Darko Marinac
Member	Zdravko Šestak
Member	Miroslav Vitković
Member	Saša Romac
Member	Dragan Habdija
Member	Goran Markulin

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS

2.1 Standards and Interpretations effective in the current period

IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's consolidated financial statements.
The adoption of these Interpretations has not led to any changes in the Group's accounting policies.
The following Interpretations to the published Standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:
IFRIC 12 'Service Concession Arrangements'; and
IFRIC 13, 'Customer Loyalty Programmes'.
IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction'.

2.2 Standards and amendments early adopted by the Group

The Group has not adopted early any Standards or Interpretations.

2.3. Standards and Interpretations in issue but not yet adopted

The following Standards and Amendments to the existing Standards have been published and are mandatory for the Company's accounting periods beginning on or after 1 January 2009, but the Group has not early adopted them:

IFRS 8 'Operating Segments'. IFRS 8 replaces IAS 14, 'Segment Reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures About Segments of an Enterprise and Related Information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The IFRS will have a significant impact on the Group's segment reporting, as the application of the 'management approach' will result in an increase in the number of reportable segments.

IAS 23 (Amendment) 'Borrowing Costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Company will apply IAS 23 (Amendment) prospectively from 1 January 2009, although it is currently not applicable to the Group, as there are no qualifying assets at the Group the construction of which would require any borrowed funds.

IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the consolidated income statement and consolidated statement of comprehensive income will be presented as consolidated performance statements.

IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services; they would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the Group's consolidated financial statements.

IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' - 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the IAS 32 and IAS 1(Amendment) from 1 January 2009. It is not expected to have any impact on the Group's consolidated financial statements.

IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Group will apply IFRS 1 (Amendment) from 1 January 2009. The amendment will not have any impact on the Group's consolidated financial statements.

IAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

IFRS 5 (Amendment), 'Non-current assets held-for-sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time Adoption of IFRS') (effective from 1 July 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

IAS 38 (Amendment), 'Intangible assets'(effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the IAS 38 (Amendment) from 1 January 2009.

IAS 19 (Amendment), 'Employee Benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
- The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
- The distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
- IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets', requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.

The Group will apply the IAS 19 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated financial statements.

IAS 39 (Amendment), 'Financial instruments: Recognition and Measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.

- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating Segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial Instruments: Recognition and Measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated financial statements.

There are a number of minor amendments to *IFRS 7 'Financial instruments: Disclosures', IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', IAS 10 'Events After the Reporting Period', IAS 18 'Revenue' and IAS 34 'Interim Financial Reporting'*, which are part of the IASB's annual improvements project published in May 2008 (not addressed above). These amendments are unlikely to have an impact on the Group's consolidated accounts and have therefore not been analysed in detail.

IAS 16 (Amendment), 'Property, Plant and Equipment' (and consequential amendment to IAS 7, 'Statement of Cash Flows') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the Group companies' ordinary activities comprise renting and subsequently selling assets.

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the Group's operations, as all intangible assets are amortised using the straight-line method.

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value.

IAS 20 (Amendment) 'Accounting for Government Grants and Disclosure of Government Assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20.

The minor amendments to IAS 20 'Accounting For Government Grants and Disclosure of Government Assistance', and IAS 29, 'Financial Reporting in Hyperinflationary Economies', IAS 40, 'Investment Property', and IAS 41, 'Agriculture', which are part of the IASB's Annual improvements project published in May 2008 (not addressed above). These amendments will not have an impact on the Group's operations as described above.

IAS 27 (Amendment), 'Consolidated and Separate Financial Statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in a subsidiary that is accounted for under IAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', IAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the stand-alone accounts of each entity.

Interpretations and amendments to existing Standards that are not yet effective and not relevant for the Group's operations

IFRIC 13 'Customer Loyalty Programmes' (effective from1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multipleelement arrangement, and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because the Group does not operate any loyalty programmes.

IAS 28 (Amendment), 'Investments in Associates' (and consequential amendments to IAS 32 'Financial Instruments: Presentation' and IFRS 7 'Financial instruments: Disclosures') (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. An investment in associate is treated as a single asset for the purposes of impairment testing. Any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the IAS 28 (Amendment) to impairment tests related to investments in subsidiaries and any related impairment losses from 1 January 2009.

IAS 29 (Amendment) 'Financial Reporting in Hyperinflationary Economies' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost.

IAS 31 (Amendment) 'Interests in Joint Ventures' (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39 'Financial Instruments: Recognition and Measurement', only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32 'Financial instruments: Presentation', and IFRS 7 'Financial Instruments: Disclosure'.

IAS 40 (Amendment), 'Investment Property' (and consequential amendments to IAS 16) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Property that is under construction or development for future use as investment property is within the scope of IAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have an impact on the Group's operations, as there are no investment properties are held by the Group.

IFRIC 15 'Agreements for Construction of Real Estates' (effective from 1 January 2009). The interpretation clarifies whether IAS 18, 'Revenue', or IAS 11, 'Construction Contracts', should be applied to particular transactions. It is likely to result in IAS 18 being applied to a wider range of transactions. IFRIC 15 is not relevant to the group's operations as all revenue transactions are accounted for under IAS 18 and not IAS 1.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and in accordance with Croatian law.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis, adjusted by revaluation of financial instruments that are carried at fair value through profit or loss, in accordance with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board and Croatian law.

The Group maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Croatian and foreign subsidiaries are maintained in accordance with regulations effective in those jurisdictions.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

The Group prepared these consolidated financial statements in accordance with Croatian regulations and IFRS, and authorised them for issue on 30 March 2009.

3.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of Podravka d.d. ("the Company") and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets and liabilities acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

3.4 Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.5 Non-current assets held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date rather than through continuing use. Non-current assets classified as held for sale in the current period's balance sheet are not reclassified in the comparative balance sheet. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the balance sheet date. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held-for-sale property, plant and equipment or disposal groups as a whole are measured at the lower of their carrying amounts and fair values less costs to sell. Held-for-sale property, plant and equipment are not depreciated.

3.6. Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below.

(a) Sales of products and trade goods – wholesale

The Group manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Group has delivered the products to the wholesaler, the wholesaler has full discretion over the price to sell, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products.

Delivery does not occur until the products have been shipped to the specified location, the risks of loss has been transferred to the wholesaler and either of the following has occurred: the wholesaler has accepted the products in accordance with the contract, the acceptance provisions have lapsed or the Group has objective evidence that all criteria for acceptance has been satisfied.

Products are sold with volume discounts and customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specific in the sales contracts, net of estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of approximately 90 days, which is consistent with the market practice.

(b) Sales of products and goods – retail

Sales of goods sold in retail stores are recognised when the Group sells a product to the customer. Retail sales are usually in cash or by credit card. The recorded revenue includes credit card fees payable for the transaction. Such fees are included in distribution costs. The Group does not operate any loyalty programmes.

(c) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

(f) Government subsidies

Government subsidies are recognised at fair value when there is a reasonable assurance that the subsidies will be received and that the Group will comply with the conditions attaching to them. Govenrment subsidies are recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, and are presented in the income statement within other income.

3.7 Leases

The Group leases certain property, plant and equipment. 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 capitalized at the inception of the lease at the lower of fair value of the leased property or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the balance outstanding. The interest element of the finance costs is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Leases where the significant portion of risks and rewards of ownership are not retained by the Group 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.

3.8. Foreign currencies

(a) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Group operates ('the functional currency'). The financial statements are presented in Croatian kuna (HRK), which is the Parent company's functional and presentation currency.

(b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional 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 at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

As at 31 December 2008, the official exchange rate for EUR 1 and USD 1 was HRK 7.3244 and HRK 5.1555, respectively (31 December 2007: HRK 7.3251 and HRK 4.9855, respectively).

3.9. Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. The Group does not capitalise borrowing costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.10. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date, if possible or if not other measurement methods are used. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 40.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

The policy described above is applied to all equity-settled share-based payments that were granted after 7 November 2002 that vested after 1 January 2005. No amount has been recognised in the financial statements in respect of other equity-settled shared-based payments.

For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date.

3.11 Dividends

Dividend distribution to the Group's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Group's shareholders.

3.12. Segment reporting

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. Details of business segments are disclosed in Note 5 to the financial statements.

3.13. Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's and the Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets are recognised on the basis of taxable temporary differences on investments in subsidiaries and associates and joint ventures, unless the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the amount at which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity, or where they arise from the initial accounting for a business combination.

In the case of a business combination, the tax effect is taken into account in calculating goodwill or in determining the excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost.

Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the balance sheet on a net basis. Where a provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

3.14. Property, plant and equipment

Property, plant and equipment are included in the balance sheet at historical cost less accumulated depreciation and provision for impairment, where required. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	2008	2007
Buildings	10 to 50 years	10 to 50 years
Equipment	3 to 18 years	3 to 18 years

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.16).

Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognised within line item 'Other gains – net' in the income statement.

3.15. Intangible assets

Licences and distribution rights

Product distribution rights have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of licences and rights over their estimated useful lives (5 years).

Rights to registration files have a finite useful life and are carried at cost less accumulated amortisation and impairment, if any. Amortisation is calculated using the straight-line method to allocate the cost of licences and rights over their estimated useful lives (5 to 10 years).

Rights to acquired trademarks and know-how are carried at historical cost and have an indefinite useful life, since based on an analysis of all of the relevant factors, there is no foreseeable limit to the period of time over which the asset is expected to generate net cash inflows. The stated right are tested annually for impairment and are stated at cost less accumulated impairment losses (Note 3.16).

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (up to 5 years).

3.16. Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase

3.16. Inventories

Inventories of raw materials and spare parts are stated at the lower of cost, determined using the weighted average method, and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of work-in-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).

Trade goods are carried at selling price less applicable taxes and margins.

Small inventory and tools are expensed when put into use.

3.17. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. An impairment allowance for 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 the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowancen is recognised in the income statement within line item 'Selling and distribution costs'.

3.18. Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, deposits held at call with banks and other short-term highly liquid instruments with original maturities of three months or less. Bank overdrafts are included within current liabilities on the balance sheet.

3.19. Share capital

Share capital consists of ordinary shares. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of the consideration received over the par value of the shares issued is presented in the notes as a share premium.

Where the Group purchases its equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

3.20. Employee benefits

(a) Pension obligations and post-employment benefits
In the normal course of business through salary deductions, the Group makes payments to mandatory pension funds on behalf of its employees as required by law. All contributions made to the mandatory pension funds are recorded as salary expense when incurred. The Group does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Group is not obliged to provide any other post-employment benefits.

(b) Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(c) Regular retirement benefits
Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(d) Long-term employee benefits
For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

(e) Short-term employee benefits
The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(f) Share-based compensation
The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest (become exercisable). At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

3.21. Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.
Provisions for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring that has been communicated to parties concerned.

3.22. Financial assets
Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.
Financial assets are classified into as 'financial assets at fair value through profit or loss' (FTPL), 'investments held to maturity' (HTM), 'available-for-sale financial assets' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at FVTPL.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:
it has been acquired principally for the purpose of selling in the near future; or

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 39.

Held-to-maturity investments
Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

Available-for-sale financial assets (AFS)
Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 39. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in equity.

Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For unlisted shares classified as AFS, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, including redeemable notes classified as AFS and finance lease receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

3.23. Financial liabilities and equity instruments issued by the Group

Classification as debt or equity
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contract liabilities
Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Financial liabilities
Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities are classified as at FVTPL where the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 39.

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

3.24. Comparatives

Where necessary, comparative information has been reclassified to conform to the current year's presentation.

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies
In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Useful lives of property, plant and equipment
The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During 2007, the directors determined that the useful life of certain items of exceeded the original estimates, resulting in a decreased depreciation charge by HRK 14.6

million. No changes to the useful lives of property, plant and equipment have been made during 2008.

Impairment of non-current assets, including goodwill
The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. In 2008, no impairment has been determined as a result of the impairment calculations made in 2008. The carrying amount of goodwill is HRK 48.4 million (2007: HRK 31.1 million) (see Note 21).

Availability of taxable profits against which the deferred tax assets could be recognised
A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. In 2008, the management of the Company has for the first time recognised in the financial statements deferred tax assets in respect of temporary differences. No restatement of the prior-period figures has been made, since the effect on the prior periods is not material. The carrying amount of deferred tax assets was HRK 44.6 million (2007: HRK 35.5 million) (see Note 17).

Actuarial estimates used in determining the retirement bonuses
The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. At 31 December 2008, provisions for jubilee benefits and retirement bonused amounted to HRK 16,450 thousand and HRK 8,153 thousand, respectively (2007: the total benefits amounted to HRK 23,110 thousand) (see notes 36 and 38).

Consequences of certain legal actions
There are a number of legal actions involving the Group, which have arisen from the regular course of their operations. The management makes estimates when the probable outcome of the legal action has been estimated, and the provisions are recognised on a consistent basis (see note 36).

Fair value estimates of financial assets at fair value through profit or loss
Pursuant to the International Accounting Standard 39 Financial Instruments: Recognition and Measurement (IAS 39), the Management Board decided to classify the bonds as financial liabilities at fair value through profit or loss because the financial liabilities of this nature have been created for the purpose of repurchase in the near future and because they are traded on capital market.

The Company measures a financial liability initially and remeasures it subsequently at fair value, whereby any gain or loss arising from changes in the fair value will be reported in the income statement.
The Company does not reclassify its financial liabilities designated at FVTPL during the period in which it holds them or delivers them.
In 2006, the year of bond issue, the Group made a deposit of HRK 250 million for the purpose of reinvestment. The balance deposited during 2007 amounted from HRK 130 to 505 million, and the deposit balance as of 31 December 2007 amounted to HRK 108 million. Any gain or loss arisen as a result of non-proportionate portion of offsetting the opposite effects was not considered material, as the Company intends to repurchase those bonds in the near future and reduce the level of the risk. During 2008 the investment strategy has partly changed as a result of the external impact of the financial market. The Company did not apply this method for speculative purposes.

Group's original investment strategy contemplated to have assets designated through profit and loss to substantially eliminate mismatch via financial liabilities through profit and loss, the Group has subsequently changed investment strategy based on the circumstances coming from the security market.

Impairment allowance
During 2007, the subsidiary Belupo d.d., Koprivnica reconciled its provisioning rules with the Group policy. Previously, Belupo d.d. made an allowance to the extent of 37.5 % of receivables outstanding for more than 270 days and those outstanding for more than 360 days were provided in full. The Group makes an allowance for all receivables outstanding for 360 days in the full amount.

The change in the estimate resulted in a decrease of the allowance in the amount of HRK 545 thousand at 31 December 2007. There were no changes in the estimate during 2008.

NOTE 5 – SALES

An analysis of the Group's revenue for the year (excluding investment revenue – see note 7) for continuing operations is as follows:

Business segment information

Primary reporting format – Business Segments

At 31 December 2008, the Group has been organised on the international market in three business segments:

1. Production and distribution of foodstuffs and beverages
2. Production and distribution of pharmaceuticals
3. Services in respect of restaurant and catering services, and meals.

Analysis of segment sales and results for the years ended 31 December 2008 and 2007

(in thousands of HRK)	Third-party sales		Intragroup sales		Total	
	2008	2007	2008	2007	2008	2007
Foodstuffs and beverages	2,924,542	2,810,624	960,389	996,562	3,884,931	3,807,186
Pharmaceuticals	729,020	614,279	-	-	729,020	614,279
Services	6,472	6,923	8,106	8,170	14,578	15,093
Total					4,628,529	4,436,558
Eliminations					(968,495)	(1,004,732)
Consolidated					**3,660,034**	**3,431,826**

(in thousands of HRK)	Operating profit	
	2008	2007
Foodstuffs and beverages	(33,236)	(67,662)
Pharmaceuticals	87,539	101,469
Services	73	110
Total profit before taxation	54,376	33,917
Income tax espense	(9,780)	(15,581)
Profit for the year	44,596	18,336

Other segment information:

(in thousands of HRK)	Foodstuffs and beverages		Pharmaceuticals		Services	
	2008	2007	2008	2007	2008	2007
Acquisition of assets	93,330	-	249,324	-	-	-
Depreciation	119,045	129,696	40,298	33,748	681	72

Segment assets, liabilities and additions

(in thousands of HRK)	Asssets		Liabilities		Additions to non-current assets	
	2008	2007	2008	2007	2008	2007
Foodstuffs and beverages	3,408,685	3,005,833	1,883,547	1,459,235	145,821	267,220
Pharmaceuticals	1,219,655	853,694	788,052	462,667	26,905	24,098
Services	6,765	7,347	-	-	82	35
Total	**4,635,105**	**3,866,874**	**2,671,600**	**1,921,902**	**172,808**	**291,353**

Analysis by geographical location

(in thousands of HRK)	Asssets		Liabilities		Additions to non-current assets	
	2008	2007	2008	2007	2008	2007
Croatia	4,102,737	3,319,962	2,312,618	1,546,734	166,997	285,757
SE Europe	207,853	183,086	194,432	175,054	3,839	1,025
Central Europe	292,255	331,183	139,147	175,522	1,241	4,498
East Europe	452	641	223	219	55	-
West Europe, overseas countries and Far East	31,808	32,002	25,180	24,373	676	73
Total	**4,635,105**	**3,866,874**	**2,671,600**	**1,921,902**	**172,808**	**291,353**

(in thousands of HRK)	Third-party sales		Non-current assets		Depreciation	
	2008	2007	2008	2007	2008	2007
Croatia	1,946,801	1,939,154	2,125,530	1,827,336	146,893	148,375
South East Europe	786,729	640,176	11,931	13,731	2,268	2,861
Central Europe	524,621	459,866	130,918	152,204	10,584	11,982
East Europe	166,608	166,165	230	398	140	156
West Europe, overseas countries and Far East	235,275	226,465	533	616	139	142
Total	**3,660,034**	**3,431,826**	**2,269,142**	**1,994,285**	**160,024**	**163,516**

(in thousands of HRK)	Acquisitions - assets		Acquisitons - depreciation	
	2008	2007	2008	2007
Croatia	163,685	-	707	-
South East Europe	178,969	-	6,256	-
Total	342,654	-	6,963	-

NOTE 6 – INVESTMENT REVENUE

	2008	2007
	(in thousands of HRK)	
Income from grants, subsidies and recourse	8,190	5,112
Interest on term deposits and trade debtors	8,095	14,587
Interest on loans	7,848	2,223
Other (other interest + other revenue)	1,413	701
	25,546	**22,623**

NOTE 7 – OTHER GAINS, NET

	2008	2007
	(in thousands of HRK)	
Gains on disposal of non-current assets held for sale and fixed assets – net	1,303	48,121
Losses on impairment of goodwill	(2,278)	-
Losses on value adjustment of investments	(8,324)	(150)
Gains on value adjustment of liabilities at fair value through profit or loss	35,894	18,801
Other adjustments	(1,674)	-
	24,921	**66,772**
Net foreign exchange (loss) / gains	(3,763)	417
	21,158	**67,189**

NOTE 8 – COST OF GOODS SOLD

	2008	2007
	(in thousands of HRK)	
Raw material and supplies	1,651,819	1,495,278
Staff costs	340,148	336,778
Depreciation	102,002	98,388
Energy	47,313	40,588
Maintenance	24,068	20,808
Other	8,865	24,116
	2,174,215	**2,015,956**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
	(in thousands of HRK)	
Staff costs	206,978	244,332
Services	35,200	58,984
Depreciation	30,062	26,545
Rental costs	16,277	9,270
Bank charges	12,794	10,658
Taxes and contributions independent of operating results	10,682	8,000
Other cost of material and energy	9,271	8,636
Telecommunications	7,786	7,823
Entertainment	6,416	7,354
Per diems	4,727	6,150
Professional training and literature	4,948	6,423
Other	13,458	4,194
	358,599	**398,369**

NOTE 10 – SELLING AND DISTRIBUTION EXPENSES

	2008	2007
	(in thousands of HRK)	
Staff costs	262,197	248,152
Rental costs	56,576	60,719
Transport	48,288	46,736
Rentals	46,543	39,572
Energy	29,546	24,614
Depreciation	24,595	35,238
Nonproduction services and one-off service agreement	15,338	16,806
Maintenance	13,464	13,588
Per diems	10,966	12,324
Net provision for trade receivables	10,882	2,969
Entertainment	10,465	9,339
Other material costs	10,281	10,638
Telecommunications	7,985	9,350
Taxes and contributions independent of operating results	6,935	7,048
Inventory deficit	5,322	3,149
Professional literature, administrative duties and other costs	4,436	2,519
Other	12,860	8,194
	576,679	**550,955**

NOTE 11 – MARKETING EXPENSES

	2008	2007
	(in thousands of HRK)	
Media advertising	106,004	149,086
Marketing for traders and consumers	121,922	118,777
Staff costs	69,678	67,963
Other marketing expenses	55,502	48,145
Entertainment	21,269	18,897
Services	15,870	15,590
Market survey and research	9,204	10,624
Per diems	5,944	6,382
Rental costs	5,603	5,292
Taxes and contributions independent of operating results	4,851	5,182
Depreciation	3,365	3,345
Transport	2,241	1,927
Telecommunications	2,577	2,799
Energy	2,576	2,170
Other expenses	7,552	6,814
	434,158	**462,993**

NOTE 12 – OTHER EXPENSES

	2008	2007
	(in thousands of HRK)	
Interest expense on trade payables	3,478	931
Other interest and finance costs	1,084	177
	4,562	**1,108**

NOTE 13 – EXPENSES BY NATURE

	2008	2007
	(in thousands of HRK)	
Raw material and consumables used, and cost of goods sold	1,746,479	1,575,285
Staff costs	879,003	897,224
Advertising and promotion	292,631	326,655
Services	157,844	158,364
Depreciation	160,024	163,516
Rental costs	81,014	71,477
Transport	54,051	49,455
Taxes and contributions independent of operating results	35,464	29,679
Entertainment	38,614	36,279
Per diems and travel expenses	23,046	26,223
Telecommunications	19,997	22,694
Bank fee	13,582	11,383
Provision for trade receivables	10,882	2,969
Other expenses	31,021	57,071
	3,543,652	**3,428,274**

NOTE 14 – STAFF COSTS

	2008	2007
	(in thousands of HRK)	
Salaries	838,310	808,337
Share options	(11,521)	14,367
Termination benefits	20,571	38,547
Provisions for liabilities to employees	12,651	17,385
Transport	10,869	10,472
Other	8,123	8,116
	879,003	**897,224**

As at 31 December 2008, the number of staff employed by the Group was 6,706 (2007: 6,754).

In 2008, the Company accrued and paid retirement benefits in the amount of HRK 20,571 thousand for 122 employees (2007: HRK 38,547 thousand for 346 employees).

The benefits paid represent regular, non-taxable benefits.

NOTE 15 – FINANCE COSTS

	2008	2007
	(in thousands of HRK)	
Interest expense from long-term borrowings	19,928	10,763
Interest expense from short-term borrowings	48,973	26,541
Interest expense from issued bonds and other	21,656	19,604
Financial expense from call option on Company shares	-	100
	90,557	57,008
Net foreign exchange losses on borrowings	13,592	1,332
	104,149	**58,340**

NOTE 16 – NET FOREIGN EXCHANGE GAINS/(LOSSES)

Foreign exchange gains and losses were reported in the income statement as follows:

	2008	2007
	(in thousands of HRK)	
Other gains / (losses) – net	(3,763)	410
Finance costs	(13,592)	(1,331)
	(17,355)	**(921)**

NOTE 17 – INCOME TAX

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 19.5 % (2007: 20.2%) applicable to the Group's profit as follows:

	2008	2007
	(in thousands of HRK)	
Profit before taxation	54,376	33,917
Tax calculated at weighted average tax rates applicable to profits in the respective countries	10,603	6,832
Effect of permantent differences, net	9,240	17,763
Effect of tax benefits (research and development, education and other allowances)	(9,106)	(7,981)
Effect of utilised tax losses	(957)	(1,033)
Income tax expense recognised in profit or loss	9,780	15,581

Unused tax losses:	2008	2007
	(in thousands of HRK)	
Unused tax losses	167,022	132,333

The availability of unused tax losses expires as follows:

	(in thousands of HRK)	
Up to 2008	-	27,162
Up to 2009	539	750
Up to 2010	1,409	1,803
Up to 2011	69,079	69,094
Up to 2012	27,253	33,524
Up to 2013	68,742	-

Deferred taxes are presented in the balance sheet as follows:

	2008	2007
	(in thousands of HRK)	
Deferred tax liabilities	8,356	642
Deferred tax assets	44,552	35,491

In accordance with Croatian tax regulations, by the end of 2008 the Group realised tax losses in the amount of HRK 167,022 thousand (2007: HRK 132,333 thousand), which may be utilised up to 2013 at the latest. Unutilised tax losses are not recognised as deferred tax assets in the balance sheet, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

Deferred tax assets arise from the following:

2008	Opening balance	Charged to profit or loss	Acquisitons/ disposals	Exchange differences	Closing balance
Temporary difference:					
Government subsidies	34,760	956	-	(4,538)	31,178
Assets under financial lease	623	(458)	-	(59)	106
Property, plant and equipment	108	-	-	(5)	103
Jubilee awards	-	3,193	-	-	3,193
Termination benefits	-	1,481	-	-	1,481
Vacation accrual	-	2,011	-	-	2,011
Impairment allowance on inventories	-	3,406	-	-	3,406
Other deferred tax assets – equity investments, future charges	-	3,074	-	-	3,074
	35,491	**13,663**	**-**	**(4,602)**	**44,552**

2007	Opening balance	Charged to profit or loss	Acquisitons/ disposals	Exchange differences	Closing balance
Temporary difference:					
Government subsidies	22,677	10,703	-	1,380	34,760
Assets under financial lease	1,102	(530)	-	51	623
Property, plant and equipment	358	-	(248)	(2)	108
	24,137	**10,173**	**(248)**	**1,429**	**35,491**

Deferred tax liabilities arise from the following:

2008	Opening balance	Charged to profit or loss	Acquisitions	Closing balance
Temporary difference:				
Adjustment of non.current assets	(642)	355	-	(287)
Adjustment of the fair value and carrying amount of the Farmavita assets	-	489	(8,558)	(8,069)
	(642)	**844**	**(8,558)**	**(8,356)**

Based on the adjustment of the fair value and carrying amount performed in respect of Farmavita d.o.o., Sarajevo, an entity acquired by Belupo d.d. in 2008, a deferred tax liability of HRK 8,069 thousand has been determined.

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are determined by dividing the Group's net earnings with the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.

	2008	2007
Net profit attributable to shareholders (in thousands of HRK)	44,739	18,336
Weighted average number of shares	5,322,219	5,388,817
Basic earnings per share (in HRK)	8.41	3.40

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 89,349 were not exercised (2007: 98,089 options):

	2008	2007
Net profit attributable to shareholders (in thousands of HRK)	44,739	18,336
Weighted average number of shares	5,411,568	5,486,906
Diluted earnings per share (in HRK)	8.27	3.34

NOTE 19 – DIVIDEND PER SHARE

On 22 July 2008, the Company's General Assembly reached a decision on the allocation of profit for the financial year 2007, under which no dividend distributions on ordinary shares were determined but rather the transfer of the entire profits to the Group's reserves.

As at 10 July 2007, the Company's General Assembly reached a decision on the distribution of profit for the financial year 2006 by approving payment of dividends on ordinary shares in the gross amount of HRK 5.00 per share, totalling HRK 27,008 thousand. During 2007, dividends were not been fully paid. Unpaid dividends are included in other liabilities (Note 37).

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
Cost				
At 1 January 2007	1,916,165	1,557,280	129,459	3,602,904
Effect of changes in the foreign exchange rate	5,343	3,757	629	9,729
Additions	946	5,496	193,090	199,532
Transfers	81,034	59,364	(140,398)	-
Disposals	(73,469)	(43,591)	-	(117,060)
At 31 December 2007	**1,930,019**	**1,582,306**	**182,780**	**3,695,105**
Accumulated depreciation				
At 1 January 2007	841,342	1,127,113	995	1,969,450
Effect of changes in the foreign exchange rate	1,136	3,114	-	4,250
Additions	836	1,803	-	2,639
Transfers	(48,941)	(42,392)	-	(91,333)
Disposals	59,988	80,790	-	140,778
At 31 December 2007	**854,361**	**1,170,428**	**995**	**2,025,784**
Carrying amount at 31 December 2007	**1,075,658**	**411,878**	**181,785**	**1,669,321**
Cost				
At 1 January 2008	1,930,019	1,582,306	182,780	3,695,105
Effect of changes in the foreign exchange rate	(9,039)	(7,485)	(25)	(16,549)
Additions	212	4,321	106,883	111,416
Acquisition of subsidiaries	119,460	34,284	5,283	159,027
Transfers	70,370	109,954	(180,324)	-
Disposals and retirements	(991)	(53,696)	(11,807)	(66,494)
At 31 December 2008	**2,110,031**	**1,669,684**	**102,790**	**3,882,505**
Accumulated depreciation				
At 1 January 2008	854,361	1,170,428	995	2,025,784
Effect of changes in the foreign exchange rate	(2,322)	(6,573)	-	(8,895)
Additions	-	577	-	577
Acquisition of subsidiaries	927	4,752	-	5,679
Disposals and retirements	(1,091)	(51,776)	(995)	(53,862)
Charge for the year	64,675	77,689	-	142,364
At 31 December 2008	**916,550**	**1,195,097**	**-**	**2,111,647**
Carrying amount at 31 December 2008	**1,193,481**	**474,587**	**102,790**	**1,770,858**

Group buildings and land worth HRK 732,084 thousand (2007: HRK 740,817 thousand) have been mortgaged against the Group borrowings.

Leased equipment where the Group is the lessee under a finance lease comprises the following:

	2008	**2007**
	(in thousands of HRK)	
Cost of capitalised finance leases	83,741	92,445
Accumulated depreciation	(22,967)	(26,813)
Net book value	60,774	65,632

On 20 December 2007 the Company, as lessee, entered into a sale and lease-back agreement for an item of asset under financial lease. According to International Accounting Standard 17 (IAS 17) Leases, any excess of sales proceeds over the carrying amount of an asset in a sale and lease-back transaction within a financial lease arrangement should not be immediately recognised as income; instead, it should be deferred and amortised over the lease term. The Company recognised the entire sales proceeds at the point of entering into the underyling agreement, which is not in accordance with IAS 17. Consequently, the results of the Company for the year ended 31 December 2008 are understated by HRK 2,867 thousand, and deferred income is understated by HRK 40,058 thousand, whereas retained earnings are overstated by HRK 42,925 thousand as of 31 December 2008.

NOTE 21 - GOODWILL

(in thousands of HRK)	2008	2007
Cost		
At 1 January	54,442	52,460
Additions (see Note 42)	19,527	1,982
At 31 December	**73,969**	**54,442**
Accumulated impairment losses		
At 1 January	23,323	24,103
Impairment losses recognised during the year	2,278	-
Effect of changes in the foreign exchange rates	(60)	(780)
At 31 December	**25,541**	**23,323**
Carrying amount at 31 December	**48,428**	**31,119**

During the year the Group made impairment of goodwill in amount of HRK 2,278 thousand as part of annual impairment testing, resulting from the acquisition of Romih Drugstores.

NOTE 22 – OTHER INTANGIBLE ASSETS

(in thousands of HRK)	Software and licences	Distribution rights, register use rights and know how	Brand	Total
Cost				
At 1 January 2007	132,116	94,656	15,500	242,272
Effect of changes in the foreign exchange rates	1,534	-	-	1,534
Additions	17,383	26,744	115,871	159,998
Disposals and retirements	(823)	-	-	(823)
At 31 December 2007	**150,210**	**121,400**	**131,371**	**402,981**
Accumulated amortisation				
At 1 January 2007	117,211	66,193	-	183,404
Effect of changes in the foreign exchange rates	1,144	-	-	1,144
Additions	106	-	-	106
Disposals and retirements	(772)	-	-	(772)
Impairment – dissolution	-	(1,076)	-	(1,076)
Charge for the year	6,861	15,877	-	22,738
Balance at 31 December 2007	**124,550**	**80,994**	**-**	**205,544**
Carrying amount at 31 December 2007	**25,660**	**40,406**	**131,371**	**197,436**
Cost				
At 1 January 2008	150,210	121,400	131,371	402,981
Effect of changes in the foreign exchange rates	(843)	(1,813)	-	(2,656)
Additions	21,179	4,916	35,874	61,969
Acquisition of subsidiaries	56,448	46,513		102,961
Disposals and retirements	(348)	(67,694)	-	(68,042)
At 31 December 2008	**226,646**	**103,322**	**167,245**	**497,213**
Accumulated amortisation				
At 1 January 2008	124,550	80,994	-	205,544
Effect of changes in the foreign exchange rates	(849)	(967)	-	(1,816)
Additions	-	-	-	-
Acquisition of subsidiaries	267	-	-	267
Disposals and retirements	(347)	(67,694)	-	(68,041)
Charge for the year	6,514	11,146	-	17,660
Balance at 31 December 2008	**130,135**	**23,479**	**-**	**153,614**
Carrying amount at 31 December 2008	**96,511**	**79,843**	**167,245**	**343,599**

NOTE 23 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country of incorporation	Ownership interest in %		Equity share in thousands of HRK		Principal activity
		2008	2007	2008	2007	
Belupo d.d., Koprivnica	Croatia	100.00	100.00	157,830	157,830	Production and distribution of pharmaceuticals
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	3,328	3,328	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100.00	0.00	20	-	Purchase and sale of goods; meal preparation and catering services
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	102,216	102,216	Meet processing and production
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Services
Lero d.o.o., Rijeka	Croatia	100.00	0.00	89,993	-	Fruit and vegetable juice and beverage production
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Trade
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	47,425	47,425	Ice cream manufacture
Sana d.o.o., Hoče	Slovenia	100.00	100.00	217	217	Wafers
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	1,925	1,925	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100.00	100.00	40	40	Sale and distribution
Podravka d.o.o., Podgorica	Monte Negro	100.00	100.00	1,029	1,029	Sale and distribution
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	100.00	1,148	1,148	Sale and distribution
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	100.00	10	10	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	100.00	100.00	426	426	Sale and distribution
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	49,717	49,717	Seasonings manufacture and sale
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	84	84	Sale and distribution
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-International s.r.o., Bratislava	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution
				531,692	**441,679**	

The owners of the company Podravka-International s.r.o., Bratislava, Slovačka are Podravka d.d. and Lagris as., Lhota u Luhačovic, Czech Republic, with a share of 75% and 25 % respectively.

During 2008, the Company acquired an equity share in the company Lero d.o.o., Rijeka, in the amount of HRK 89,993 thousand.
During 2008, a share in Farmavita, Sarajevo, in the amount of HRK 71,944 thousand was acquired by Belupo d.d.
During 2008, a new entity was established, Podravsko ugostiteljstvo d.o.o., Koprivnica, with a share capital in the amount of HRK 20 thousand.
During 2007, impairment losses were reversed in respect of the following equity investments: Ital-Ice d.o.o., Poreč – HRK 7,449 thousand; and Lagris a.s., Lhota u Luhačovic, Czech Republic, in the amount of HRK 12,486 thousand. The reversals were presented within 'Other gains, net'.

NOTE 24 – INVENTORIES

	2008	2007
	(in thousands of HRK)	
Raw materials and supplies	213,124	216,292
Work in progress	44,432	55,515
Finished goods	212,094	186,059
Trade goods	162,110	136,656
	631,760	**594,522**

In 2008, impairment losses were charged to certain inventories in the total amount of HRK 475 thousand (2007: HRK 5,232 thousand), relating to the reassessment of damaged and obsolete inventories. The impairment losses are included in the income statement in line item 'Cost of goods sold' (note 8).

NOTE 25 – OTHER FINANCIAL ASSETS

	2008	2007
	(in thousands of HRK)	
Loans	57,807	54,544
Other receivables and deposits	3,898	6,373
	61,705	**60,917**

The fair value of non-current receivables approximates the carrying amounts, since the contracted interest rates reflect market rates.

NOTE 26 – TRADE AND OTHER RECEIVABLES

	2008	2007
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,297,734	1,040,275
Less: Provisions for impairment	(111,428)	(108,701)
Net trade receivables	1,186,306	931,574
Advances to suppliers	7,243	4,514
Short-term deposit	148,639	108,910
Loans given	18,542	625
Bills of exchange received	3,199	31,794
Other receivables	71,609	76,469
Total current receivables	**1,435,538**	**1,153,886**

Movements in the provision for impairment of trade receivables are as follows:

	2008	2007
	(in thousands of HRK)	
At 1 January	108,701	136,514
Increase	17,522	9,051
Collected	(6,642)	(6,082)
Written off as uncollectible	(8,153)	(30,782)
At 31 December	**111,428**	**108,701**

Impairment allowance for trade receivables and subsequent collections on the Group level were included in 'Selling and distribution expenses' (Note 10).

Ageing analysis of trade receivables past due but not impaired

	2008	2007
	(in thousands of HRK)	
0-90 days	275,634	263,883
91-180 days	146,979	92,916
181-360 days	69,169	17,085
	491,782	**373,884**

Other receivables at 31 December were as follows:

	2008	2007
	(in thousands of HRK)	
Prepaid income taxes	5,559	1,927
Receivables in respect of interest accrued on given loans	7,609	876
Net VAT receivable	35,170	57,681
Receivables from employees	2,421	3,680
Prepaid expenses	12,834	3,115
Amounts due from settlement arrangements	1,378	1,371
Other receivables – gross	7,674	9,034
Impairment allowance for other receivables	(1,036)	(1,215)
	71,609	**76,469**

The impairment allowance for other receivables is presented within 'Selling and distribution expenses', i.e. the expense analysis by nature (Note 10 and Note 13, respectively).

NOTE 27 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007
	(in thousands of HRK)	
Investments in:		
Investment funds	23,416	6,040
Other	123	123
	23,539	**6,163**

Movements during the year are as follows:

	2008	2007
	(in thousands of HRK)	
Opening net book value	6,163	3,046
Additions	33,700	3,010
Disposals	(8,000)	-
Effect of remeasurement at fair value	(8,324)	107
Closing net book value	**23,539**	**6,163**

In 2008, shares were purchased in the investment fund ST Investa in the total amount of HRK 30,200 thousand, whereas shares in the investment fund sold amounted to HRK 8,000 thousand. Also, a share in the investment fund FIMA Equity was purchased in 2008 in the amount of HRK 3,500 thousand.

In 2007, shares were purchased in the investment fund ST Cash in the total amount of HRK 3,000 thousand.
In 2007, an investment in the Croatian Chamber of Commerce Scholarship Foundation was made in the amount of HRK 10 thousand.

NOTE 28 – CASH AND CASH EQUIVALENTS

	2008	2007
	(in thousands of HRK)	
Cash with banks	262,812	109,895
Cash in hand	500	413
Cheques received	20	11
Deposits and securities	7,277	2,230
	270,609	**112,549**

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

	2008	2007
	(in thousands of HRK)	
Property at the subsidiary Podravka Kft, Budapest	4,517	5,469
	4,517	**5,469**

NOTE 30 – SHAREHOLDERS' EQUITY

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)			*(in thousands of HRK)*	
At 1 January 2007	**5,400,314**	**1,626,001**	**(191,961)**	**(6,711)**	**1,427,329**
Purchase of treasury shares	(109,402)	-	-	(57,526)	(57,526)
Employee share options /i/:					
- options exercised	52,918	-	(13,782)	24,888	11,106
- fair value of options	-	-	8,682	-	8,682
Call option on Company shares /ii/	-	-	238,876	-	238,876
At 31 December 2007	**5,343,830**	**1,626,001**	**41,815**	**(39,349)**	**1,628,467**
At 1 January 2008	**5,343,830**	**1,626,001**	**41,815**	**(39,349)**	**1,628,467**
Purchase of treasury shares	(100,499)	-	-	(33,738)	(33,738)
Sale of treasury shares	1,042	-	(158)	424	266
Employee share options 7i/:					
- options exercised	22,953	-	(7,567)	11,449	3,882
- fair value of options	-	-	(11,521)	-	(11,521)
At 31 December 2008	**5,267,326**	**1,626,001**	**22,569**	**(61,214)**	**1,587,356**

As at 31 December 2008, the Company's share capital amounted to HRK 1,626,001 thousand, distributed among 5,420,003 shares (2007: HRK 1,626,001 thousand and 5,420,003 shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid.

NOTE 31 – RESERVES

(in thousands of HRK)	Legal reserves	Other reserves	Translation reserve	Reserves for treasury shares	Total
At 1 January 2007	44,287	90,790	8,700	4,726	148,503
Transfers	133	-	-	-	133
Dividends declared /i/	-	(25,703)	-	-	(25,703)
Transfer to reserves /ii/	297	5,219	-	1,986	7,502
Exchange differences	-	-	8,206	-	8,206
At 31 December 2007	**44,717**	**70,306**	**16,906**	**6,712**	**138,641**
At 1 January 2008	44,717	70,306	16,906	6,712	138,641
Transfer to reserves /ii/	423	(11,887)	-	19,302	7,838
Coverage of loss	(624)	(43,189)	-	-	(43,813)
Exchange differences	-	-	(19,208)	-	(19,208)
At 31 December 2008	**44,516**	**15,230**	**(2,302)**	**26,014**	**83,458**

The legal reserve is required under Croatian law according to which the Company is committed to build up legal reserves to a minimum of 5% of the profit for the year until the total reserve reaches 5% of the share capital. Both legal reserves and reserves for treasury shares are non-distributable. Other reserves mainly comprise statutory reserves recorded in accordance with the Group's Articles of Association.

/i/ According to the decision of the General Assembly of the Company from July 2008 the Group's profit for 2007 was allocated to: legal reserves in the amount of HRK 181 thousand; and to treasury share reserve in the amount of HRK 19,302 thousand.

/ii/ According to the decision of the Company's General Assembly in July 2007, distribution of dividend was approved in the gross amount of HRK 5 per share.

Pursuant to the decisions made by individual Group company management boards, the balances of retained earnings were transferred to other reserves, out of which dividends were paid.

NOTE 32 – RETAINED EARNINGS

	2008	2007
	(in thousands of HRK)	
At 1 January	177,864	170,848
Correction of opening balance	-	(2,513)
Transfer to legal and other reserves	(7,838)	(7,502)
Dividends paid	-	(1,305)
Coverage of loss	43,813	-
Net profit for the period	44,739	18,336
At 31 December	**258,578**	**177,864**

NOTE 33 – MINORITY INTEREST

	2008
	(in thousands of HRK)
Balance at 1 January	-
Minority interest at acquisition	34,170
Exchange differences	86
Share in the current year's loss	(143)
Balance at 31 December	**34,113**

NOTE 34 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	2007
	(in thousands of HRK)	
Issued bonds	318,750	354,000
	318,750	**354,000**

On 17 May 2006, the Company issued bonds in the nominal amount of HRK 375,000 thousand, at an interest rate of 5.125 %, which mature on 17 May 2011.

The effective interest rates on the balance sheet dates were as follows:

			2008			2007
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	%	%	%	%	%
Bonds issued	5.32	-	-	5.32	-	-

NOTE 35 – BORROWINGS

	2008	2007
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	43,327	67,313
Banks in foreign countries	525,161	16,954
Finance lease	29,084	29,231
	597,572	113,498
Current borrowings		
Banks in Croatia	792,452	422,059
Banks in foreign countries	60,358	223,715
Finance lease	4,134	3,008
Other	1,511	434
	858,455	**649,216**
Total borrowings	**1,456,027**	**762,714**

Bank borrowings in the amount of HRK 647,716 thousand (2007: HRK 155,407 thousand) are secured by mortgages over the Group land and buildings (Note 20).

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2008	2007	2008	2007	2008	2007
					(in thousands of HRK)	
Up to 1 year	6,434	5,308	2,509	2,378	3,925	2,930
Between 1 and 5 years	15,389	14,294	7,919	9,833	7,470	4,461
After 5 years	29,878	33,199	8,473	8,459	21,405	24,740
Less: future finance charges	**(18.901)**	**(20,670)**	**(18,901)**	**(20,670)**	**32,800**	**32,131**
Present value of minimum lease payments	**32.800**	**32,131**			**32,800**	**32,131**
Included in the financial statements within:						
Current borrowings					3,925	2,930
Non-current borrowings					28,875	29,201
					32,800	**32,131**

The exposure of the Group's borrowings to interest rate changes based on the contractual repricing dates at the balance sheet dates are as follows:

	2008	2007
	(in thousands of HRK)	
6 months or less	1,282,648	351,343
6 – 12 months	135,912	297,795
1 – 5 years	37,467	92,156
Over 5 years	-	21,420
	1,456,027	**762,714**

If the interest rate on borrowings at variable rates increases by 5.88 % on average, the liability in respect of interest would increase by HRK 7,725 thousand.

The maturity of non-current borrowings is as follows:

	2008	**2007**
	(in thousands of HRK)	
Between 1 and 2 years	116,803	39,609
Between 2 and 5 years	379,525	52,469
Over 5 years	101,244	21,420
	597,572	**113,498**

The effective interest rates at the balance sheet date were as follows:

	2008			**2007**		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	5.00	7.09	-	4.04	5.53	-
Banks in foreign countries	-	7.23	-	-	5.72	-
Finance lease	-	8.18	-	-	7.86	-
Other	-		9.38	-	-	8.53
Current borrowings						
Banks	8.21	7.51	4.85	4.85	6.16	4.63
Other	5.00	-	-	4.72	-	-

During 2008, long-term borrowings were repaid in accordance with the 2008 repayment schedule. The borrowing facilities used by Podravka d.d. comprised a long-term loan for fixed assets from Hypo Alpe-Adria Bank, Klagenfurt, in the amount of EUR 17 million, fora term of 6 years and withinterest charged at 3-month EURIBOR + 2% annually, and a long-term loan for working capital purposes from the Erste Bank Group, Vienna, in the amount of EUR 40 million, for a term of 6 years and with interet charged at 3-month EURIBOR + 2% annually. Belupo d.d. used a working capital loan in the amount of HRK 15 million from Raiffeisen Zentralbank, Vienna, for a term of 5 years and interest charged at 3-month EURIBOR +2.5 % annually, and a long-term fixed asset loan from Raiffeisenbank Klagenfurt in the amount of EUR 4.2 million, for a term of 6 years and with interest charged at 1-month EURIBOR, plus 2.45% annually.

The carrying amounts and fair value of non-current borrowings are as follows:

	Carrying amounts		**Fair values**	
	2008	**2007**	**2008**	**2007**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Banks in Croatia	43,327	67,313	42,869	63,762
Banks in foreign countries	525,161	16,954	525,161	16,954
Finance lease	29,084	29,231	29,084	29,201
	597,572	**113,498**	**597,114**	**109,917**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.78% (2007: 5.50%).

The carrying amounts of short-term borrowings approximate their fair values, and the discounting effect is not significant, because of the short-term nature of the borrowings.

The carrying amounts of the Company's borrowings are denominated in the following currencies:

	2008	2007
	(in thousands of HRK)	
HRK	659,815	375,532
EUR	704,319	327,813
Other currencies	91,893	59,369
	1,456,027	**762,714**

Most of the borrowings are EUR denominated. Therefore, the effect of changes in the foreign exchange rates impacts the amount of borrowings.

The Company has the following undrawn borrowing facilities:

	2008	2007
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	107,970	107,575
	107,970	**107,575**

The stated borrowing facilities comprise current borrowings granted on a revolving basis, mainly for the purpose of opening letters of credit for purchases of goods on credit and unused revolving facilities.

NOTE 36 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Vacation accruals	Regular termination benefits	Termination benefits and bonuses	Legal actions	Total
Analysis of total provisions as at 31 December 2007						
Non-current	13,909	-	7,094	-	4,409	25,412
Current	2,107	11,452	-	3,700	179	17,438
At 1 January 2008	**16,016**	**11,452**	**7,094**	**3,700**	**4,588**	**42,850**
Expense/(income) in the income statement:						
Increase of provisions	2,254	8,024	1,233	2,420	1,264	15,195
Utilised during the year	(1,820)	(7,584)	(174)	(3,757)	(696)	(14,031)
At 31 December 2008	**16,450**	**11,892**	**8,153**	**2,363**	**5,156**	**44,014**
Analysis of total provisions as at 31 December 2008:						
Non-current	14,342	-	8,041	-	4,956	27,339
Current	2,108	11,892	112	2,363	200	16,675
	16,450	**11,892**	**8,153**	**2,363**	**5,156**	**44,014**

Employee benefits

This provision comprises estimated employee benefits relating to unused vacation days and jubilee awards, as defined by the collective bargaining agreement, and bonuses to executive directors. The non-current provision relates to the estimated acquired rights to jubilee awards that will be paid after 2008.

The current amount of employee benefits includes HRK 11,892 thousand in respect of unused vacation days, HRK 2,363 thousand in respect to annual bonuses and retirement incentives to executives, and HRK 2,108 thousand in respect of annual awards that will be paid in 2009.

Termination benefits

During 2008 and 2007, agreements were reach to pay retirement incentives for 122 employees and 336 employees of the Group, respectively.

Legal actions

This provision relates to certain legal proceedings initiated against the Group. The provision expense is stated in the income statement under administrative expenses.

Based on the expert opinion of legal counsel, the Group's Management believes that the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2008.

NOTE 37 – TRADE AND OTHER PAYABLES

	2008	**2007**
	(in thousands of HRK)	
Trade payables	652,920	615,829
Other liabilities	191,533	145,867
	844,453	**761,696**

At 31 December 2008 and 31 December 2007, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2008	2007
	(in thousands of HRK)	
Salaries and other payments to employees	74,545	66,675
Accrued expenses	67,269	38,689
Accrued interest not yet due on bonds and borrowings	27,454	18,340
Taxes, contributions and other duties payable	8,531	7,721
Advances	2,986	3,506
Dividends payable	1,780	2,087
Packaging disposal fee payable	(657)	5,533
Net VAT payable	587	1,308
Other	9,038	2,008
	191,533	**145,867**

NOTE 38 – RETIREMENT BENEFIT PLAN

According to the Collective Agreement the Group has obligation to pay jubilee awards, retirement and other benefits to employees. The Group operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 10 thousand, of which HRK 2 thousand are taxable. No other post-retirement benefits are provided. Jubilee awards are paid out according to the Collective Agreement, in the following net amounts and at the following anniversary dates:

- HRK 1,200 for 10 years of continous service
- HRK 1,600 for 15 years of continuous service
- HRK 2,000 for 20 years of continuous service
- HRK 2,500 for 25 years of continuous service
- HRK 3,000 for 30 years of continuous service
- HRK 3,500 for 35 years of continuous service
- HRK 4,000 for 40 years of continuous service.

The Group pays pension contributions on behalf of its employees in accordance with applicable legal regulations. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 Decembeer 2008 by the actuaries of the firm Aktuarijat Sanjković d.o.o. In 2008, the Group made a provision of HRK 16,450 thousand for jubilee awards and HRK 8,153 thousand for regular retirement benefits.

The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the Projected Credit Unit Method.

The actuarial estimates have been derived on the basis of the following key assumptions:

	Estimate	
	2008	**2007**
Discount rate	6.4-7.65%	5.4
Fluctuation rate - 2008	3.71-10.34%	3.2-6.8%
Average expected remaining working lives (in years)	22	24

The amounts recognised in the income statement in respect of the defined benefit plan:

	2008	2007
	(in thousands of HRK)	
Current service cost	1,330	1,205
Interest expense	1,395	1,121
Net actuarial loss for the year	169	3,692
Benefits paid	(2,177)	(2,436)
Other actuarial adjustments	776	(937)
	1,493	**2,645**

The amount reported in the balance sheet in respect of defined retirement benefits and jubilee awards:

	2008	2007
	(in thousands of HRK)	
Present value of jubilee awards	16,450	16,016
Present value of termination benefits	8,153	7,094
Obligation reported in the balance sheet	**24,603**	**23,110**

Of which by maturity:

	2008	2007
	(in thousands of HRK)	
Short-term	2,220	2,107
Long-term	22,383	21,003
	24,603	**23,110**

Changes in the present value of the defined benefit obligation during the period:

	2008	2007
	(in thousands of HRK)	
At 1 January	23,110	20,465
Current service cost	1,330	1,205
Interest expense	1,395	1,121
Actuarial losses	169	3,692
Benefits paid	(2,177)	(2,436)
Other actuarial adjustments	776	(937)
At 31 December	**24,603**	**23,110**

NOTE 39 – FINANCIAL INSTRUMENTS

39.1. Capital risk management

Net debt to equity ratio (Gearing ratio)
The Treasury of Podravka d.d. and the Podravka Group reviews the capital structure on an semi-annual basis. As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the balance sheet date was as follows:

	2008	2007
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	1,774,777	1,116,714
Cash and cash equivalents	(270,609)	(112,549)
Net debt	1,504,168	1,004,165
Equity	1.929.392	1,944,972
Net debt to equity ratio	77,96%	51.63%

Debt is defined as long- and short-term borrowings. Equity includes all capital and reserves of the Company.

39.2. Significant accounting policies
Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the consolidated financial statements.

39.3. Categories of financial instruments

	2008	2007
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,764,653	1,295,558
Held-to-maturity investments – bills of exchange	3,199	31,794
Financial assets at fair value through profit or loss	28,056	11,632
Financial liabilities		
Finance lease obligations	32,800	32,239
Financial liabilities at fair value	318,750	354,000
Borrowings	1,423,227	730,475
Trade payables	652,920	615,829
Provisions and other payables	243,905	189,359

39.4. Financial risk management objectives

The Group operates internationally and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Group is exposed to the effect of changes in market prices of food material and of exchange differences and changes in interest rates. In addition, due to credit terms extended to its customers, the Group is exposed to a risk of default.

The Treasury function at Podravka provides financial services for Podravka and coordinates the financial operations of the Group on the domestic and international markets, and monitors and manages the financial risks relating to the operations of Podravka. The principal risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The significant risks, together with the methods used to manage these risks, are described below. To Group does not use any derivatives to manage its risks or for speculative purposes.

39.5. Market risk

Commodity risk management (price risk)
Volatitliy in food material prices is a pervasive element of the Company's business environment, given the share of approximately 62 % to 65 % of the products sold at Podravka as a food manufacturer in the sales, which clearly demonstrates the importance of managing input material prices.

The Purchase function has been centralised, which in itself provides the Company the status of a reputable customer on the market, with a fine starting position to negotiate prices. Fixed rate, long-term framework agreements are entered into, with the terms and conditions defined in line with the market trends.Thus, the Purchase function monitors regularly the global trends on commodity exchanges and uses regular market reports provided by strategic suppliers, which serves as the basis to respond on the spot market whenever a certain commodity has reached a favourable price for the Group.

Sales function based risk
The Group does not use any forward agreements to manage its exposure to the risk of fluctuation in food material prices.

39.6. Foreign exchange risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2008	2007	2008	2007
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	871,169	470,443	307,868	88,821
USA (USD)	12,005	23,672	6,247	8,146
Other currencies	157,759	151,103	259,547	217,497

Foreign currency sensitivity analysis
The Group is mainly exposed to the fluctuations in the exchange rate of Croatian kuna to Euro and US dollar, since the most of the trading on the international market is done in Euro and US dollar.

The following table details the Group's sensitivity to a 3.04 % decrease in Croatian kuna against the relevant foreign currencies (2007: increase 0.06 %). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR impact		USD impact	
	2008	2007	2008	2007
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	8,031	1,309	62	-
Loss		-	-	356

	Impact of other currencies	
	2008	2007
	(in thousands of HRK)	
Profit	5,684	-
Loss	-	1,159

The exposure to the fluctuations in exchange rates by 3.04 % is mainly attributable to the borrowings, trade payables and trade receivables denominated in Euro (EUR) and US dollar (USD).

39.7. Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Group's borrowings are at variable rates.

Interest rate sensitivity analysis
The sensitivity analyses below have been determined based on the exposure to interest rates at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the interest expense of the Group for the year 2008 would have changed by HRK 7,725 thousand (2007: HRK 2,737 thousand).

Because of increased long-term debt at variable rates, the impact of a potential changes in interest rates on profit has increased.

39.8. Other price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes.

39.9. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a "Credit Risk Management Procedure", which it applies in dealing with customers and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Customers are classified into risk groupings based on the financial indicators and own trading records, and appropriate credit risk mitigation measures are taken for each risk class.

Customers are classified mainly on the basis of official financial statements of customers, and credit ratings supplied by independent rating agencies, and the history of trading with each customer.

Podravka's exposure and the credit ratings of its counterparties are continuously monitored and credit exposure is controlled by counterparty limits that are reviewed at least annually.

The Group transacts with a large number of customers from various industries and of various size. The major risk concentration is found in releation to shopping malls.

The Group has no significant credit exposures that would not be covered by collateral.

39.10. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and credit lines, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate tables
The following tables detail the Group's remaining contractual maturity for its financial liabilities.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities on maturity. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2008							
Non-interest bearing	-	680,340	127,761	52,394	1,935	34,394	896,824
Financial liabilities at fair value	5.32	-	-	-	318,750	-	318,750
Interest bearing	7.15	45,470	333,188	563,000	669,512	110,816	1,721,986
		725,810	460,949	615,394	990,197	145,210	2,937,560
2007							
Non-interest bearing	-	553,457	185,023	26,340	1,918	38,450	805,188
Financial liabilities at fair value	5.32	-	-	-	354,000	-	354,000
Interest bearing	5.20	6,634	295,388	416,624	178,092	29,879	926,617
		560,091	480,411	442,964	534,010	68,329	2,085,805

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 497,440 thousand for the year 2008 (2007: HRK 437,411 thousand) and amounts due to employees in the amount of HRK 64,646 thousand (2007: 66,675 thousand).

The non-interest bearing liabilities of the Group due in a period of over five years include, among others, long-term provisions in the amount of HRK 35,695h thousand in 2008 (2007. HRK 25,412 thousand).

Interest bearing liabilities include short-term and long-term borrowings, bonds and finance lease obligations.

The tables below detail the remaining contractual maturities of the Group's assets presented on the balance sheet at the period end.

The tables have been drawn up based on the undiscounted cash flows of financial assets on maturity. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2008							
Non-interest bearing	-	849,211	239,440	196,823	8,232		1,293,706
Interest bearing	4.31%	275,760	154,031	18,581	60,915	4,348	513,635
		1,124,971	393,471	215,404	69,147	4,348	1,807,341
2007							
Non-interest bearing	-	637,349	232,911	182,470	564	-	1,053,294
Interest bearing	3-89%	113,956	112,480	13,836	57,708	1,968	299,948
		751,305	345,391	196,306	58,272	1,968	1,353,242

39.11. Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less portion repaid.

Fair value is determined as the amount at which a financial instrument can be exchanged bertween willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of a financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

At 31 December 2008, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their market value due to the short-term nature of those assets and liabilities.

NOTE 40 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares are granted to members of Management and certain executive directors in accordance with the applicable Contracts effective for the periods from 2000 to 2007, those applicable in the year 2008 and thereafter.

The exercise price of the granted option equals the average share price of the Company's shares per the Zagreb Stock Exchange in the year the option is granted (until 2005, the employees of Belupo were entitled to a purchase price of 60% of the average price). The vesting period normally starts at the beginning of the business year. Options are acquired separately for each business year.

The vesting period for the options awarded under the contracts effective from 2000 to 2007 is one year, and for the options awarded under the contracts in effect for 2008, the vesting period is one year.

The exercise period for the options granted until 2008 is from 3 to 5 years after the end of the year when they were granted, and for those granted in 2008, it is from 1 to 3 years after the end of the year in which were granted. Based on historical practice, upon termination of employment the options vest immediately and can be exercised within a period of up to 6 months, as determined by the Employment Termination Agreement. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

2008

Option series	**Number of options**	**Grant date**	**Expiry date**	**Exercise price**	**Fair value in the grant year**	**Fair value at 31/12/2008**
Opening balance	98,089					
Series 4	3,000	2003	2008	184.36	171.00	261.00
Series 4	6,540	2003	2008	110.62	171.00	261.00
Series 5	22,916	2004	2009	198.04	239.00	261.00
Series 5	8,000	2004	2009	118.82	239.00	261.00
Series 6	11,750	2005	2010	296.69	318.00	261.00
Series 7	45,883	2007	2012	507.48	510.00	261.00

Options granted during 2008

Series 8	**36,799**	**2008**	**2011**	**361.14**	**261.00**	**261.00**

The following serial shares under share-based payment arrangements are effective in the current reporting period:

Inputs into the model

									Option series
	Series 4	**Series 4**	**Series 5**	**Series 5**	**Series 6**	**Series 7.1**	**Series 7.2**	**Series 7.3**	**Series 8**
Grant date share price	171.00	171.00	239.00	239.00	319.00	510.00	510.00	510.00	261.00
Exercise price	184.36	110.62	198.04	118.82	296.69	296.69	399.69	535.25	361.14
Expected volatility	20.34	20.34	20.34	20.34	24.81	25.90	25.90	25.90	24.81
Option life	5	5	5	5	5	5	5	5	3

Overview of option balances and exercised options

			2008			**2007**
	Number of options	**Weighted average exercise price**	**Weighted average p rice at exercise date**	**Number of options**	**Weighted average exercise price**	**Weighted average price at exercise date**
Balance at beginning of year	98,089	341,90		96.374	210,79	-
Granted during the year	36,799	361,14		54.633	473,72	-
						-
Forfeited during the year				-	-	-
Exercised during the year	22,953	169,16	400,41	52.918	209,88	545,48
Bonuses				-	-	-
Total exercised during the year	22,953	169,16	400,41	52.918	209,88	545,48
Expired/unused during the year	22,586	309,29		-	-	-
Balance at end of year	**89,349**	**402,44**		**98.089**	**341,90**	

Exercise price = contracted price

Price at exercise date = price at which the option is exercised

Options exercised during 2008

Option series	Number exercised	Exercise date	Price at exercise date
Series 4 – Transferred	6,540	2008	487.45
Series 5	2,913	2008	330.87
Series 5 – Transferred	8,000	2008	350.05
Series 7	5,500	2008	407.00
Total:	**22,953**	**2008**	**400.41**

Balance at the end of 2008, by series

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year	Fair value at 31/12/2008
Series 5	10,000	2004	2009	198.04	239.00	261.00
Series 6	6,250	2005	2010	296.69	318.00	261.00
Series 7	36,300	2007	2012	518.82	510.00	261.00
Series 8	36,799	2008	2011	361.14	261.00	261.00
At 31 December 2008	**89,349**					

As at 31 December 2008, 89,349 options became vested (2007: 98,089). In 2008, 18,750 options 2007: 40,456 options), which were exercisable, were not exercised. Options exercised in 2008 resulted in 22,953 options (2007: 52,918 options), being issued at an average price of HRK 169.16 (2007: HRK 209,88). The related weighted average market price at the time of exercise was HRK 400.41 (2007: HRK 545.48).

NOTE 41– RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

EXPENSES	2008	2007
	(in thousands of HRK)	
Remuneration to the Management Board members and executives		
Salaries	66,219	57,069
Share options through profit or loss	(11,521)	14,367
	54,698	**71,436**

NOTE 42 – ACQUISITION OF SUBSIDIARIES

42.1. Acquirees

Name of the entity	Principal business	Acquisition date	Acquired share in %	Cost of acquisiton
2008				
Lero d.o.o.	Production of, and trade in non-alcoholic beverages	15/10/2008	100	89,993
Farmavita d.o.o. Sarajevo	Pharmaceuticals manufacture and distribution	08/05/2008	65	71,944
Ljekarna Romih, Harmica	Drugstore	12/08/2008	100	345
Ljekarna Crnošija Samobor	Drugstore	12/08/2008	100	4,409
Ljekarna Kuruc, Koprivnica	Drugstore	05/09/2008	100	6,483
Ljekarna Sobol-Šnajdar, Crikvenica	Drugstore	15/09/2008	100	20,424
ZU Derjanović Pharm, Duga Resa	Drugstore	01/12/2008	100	36,634
				230,232

42.2. Analysis of acquired assets and liabilities

Lero d.o.o.

	Carrying amount	Adjustment	Fair value
Non-current assets	88,649	-	88,649
Current assets	4,662	-	4,662
Cash and cash equivalents	20	-	20
Current liabilities	(4,662)	-	(4,662)
Net assets acquired	**88,669**		**88,669**
Goodwill		**-**	**1,324**
Cost of acquisiton		**-**	**89,993**

Podravka d.d. acquired the entire equity share in Lero d.o.o. on 15 October 2008, at a total cost of HRK 89,993 thousand.
Lero d.o.o. was established by the seller for the purpose of sale, with the fixed assets contributed to the company's capital measured at fair value. The company was established and sold during 2008. Therefore, the reported carrying amounts are concordant with the fair value of the Company.

Acquirees of Belupo d.d. during 2008:

Farmavita d.o.o.

	Carrying amount	**Adjustment**	**Fair value**	**Proportional share**
Non-current assets				
Property, plant and equipment	25,134	39,502	64,636	
Intangible assets	772	46,064	46,836	
Current assets				
Inventories	21,051	-	21,051	
Trade receivables and other receivables	37,581	942	38,523	
Other receivables	7,782	-	7,782	
Cash and cash equivalents	141	-	141	
Non-current liabilities				
Long-term debt	(12,613)	-	(12,613)	
Provisions for deferred taxes	-	(8,557)	(8,557)	
Current liabilities				
Trade payables and o ther liabilities	(60,580)	410	(60,170)	
Net assets acquired	**19,268**	**78,361**	**97,629**	**63,459**
Goodwill				**8,485**
Cost of acquisition				**71,944**

Belupo d.d. acquired an equity share of 65% in Farmavita d.o.o., Sarajevo, at a total cost of HRK 71,944 thousand. Minority interest is disclosed in Note 33.

Drugstores

	Carrying amount	**Adjustment**	**Fair value**
Property, plant and equipment	63	-	63
Intangible assets	-	55,858	55,858
Inventories	4,399	-	4,399
Trade receivables	7,640	-	7,640
Cash and cash equivalents	116	-	116
Current liabilities	(9,499)	-	(9,499)
Net assets acquired	**2,719**	**55,858**	**58,577**
Goodwill			**9,718**
Cost of acquisition			**68,295**

The full shares of Belupo d.d. in the drugstores noted below were acquired at a total cost of HRK 68,295 thousand:

- Ljekarna Romih, Harmica
- Ljekarna Crnošija, Samobor
- Ljekarna Kuruc,Koprivnica
- Ljekarna Sobol - Šnajder, Crikvenica
- ZU Derjanović Pharm, Duga Resa

42.3. Cost of acquisition

The consideration to acquire Lero d.o.o., Farmavita d.o.o. and the drugstores was paid in cash.

42.4. Net outflow on acquisitions

	Lero d.o.o.	Farmavita	Drugstores	Total
Cash consideration	89,993	71,944	68,295	230,232
Less: cash and cash equivalents acquired	(20)	(141)	(116)	(277)
	89,973	**71,803**	**68,179**	**229,955**

42.5. Goodwill arising on acquisition

	(in thousands of HRK)
Total consideration paid	230,232
Net assets acquired	(244,875)
Minority interest	34,170
Goodwill	**19,527**

42.6. Impact of acquisition on the results of the Group

Included in the profit for the year are HRK 1,250 thousand of loss arisen on the acquisition of the company Lero d.o.o.; HRK 265 thousand of loss on the acquisition of the company Farmavita d.o.o.; and HRK 82 thousand of loss on the acquisition of the Drugstores.
Had the business combinations been effected at 1 January 2008, the revenue of the Group from continuing operations would have been HRK 3,792,348 thousand, and the profit for the year from continuing operations would have been HRK 37,830 thousand. The management considers these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

In determining the "pro-forma" revenue and profit of the Group had the business combinations been effected at 1 January 2008, the management has:
- calculated depreciation and amortisation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements,
- based borrowing costs on the funding levels, credit ratings and debt/equity position of the Group after the business combination; and
- excluded takeover defence costs of the acquirees as a one-off pre-acquisition transaction.

NOTE 43 – CONTINGENT LIABILITIES

	2008	2007
	(in thousands of HRK)	
Legal actions	3,135	6,005
Agreed with suppliers of fixed assets not yet realised	25,933	77,636
Guarantees and warranties given	28,902	53,041
	57,970	**136,682**

With respect to other legal proceedings and guarantees granted, contingent liabilities have not been recognised in the balance sheet as at 31 December, as Management estimated that as at 31 December 2008 and 2007 no contingent liability will arise for the Group.

NOTE 44 – COMMITMENTS

In 2008, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 25,933 thousand (2007: HRK 77,636 thousand), which are not yet realised or recognised in the balance sheet.

	2008	2007
		(in thousands of HRK)
Not later than 1 year	39,583	33,451
Later than 1 year and not later than 5 years	66,186	64,449
	105,769	**97,900**

NOTE 45 – SUBSEQUENT EVENTS

By Management Decision, dated 9 September 2008, Podravka d.d. decided to enter into a short-term financing arrangement through an issue of commercial papers.

The total value of the Podravka Commercial Paper Programme is HRK 350 million, and the total Programme term is 3 to 5 years.

On 10 February 2009, the first tranche of the commercial papers was issued, with Raiffeisenbank Austria d.d. (RBA), as the issuing dealer. The total nominal amount of the tranche is EUR 18 million, the yield is 9.5 per cent, the issue price is 91.722 per cent, and the maturity is 364 days.

On 10 February 2009, the Management Board of Podravka d.d. passed a decision to establish a limited liability company in the Republic of Turkey, headqartered in Istanbul. The share capital of the entity amounts to TRY 5,000, with Podravka d.d. and Danica d.o.o. being the entity's shareholders, with the respective shareholdings of 75 percent and 25 percent, respectively.

NOTE 46 – APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorized for issue on 30 March 2009.

Zdravko Šestak

Management Board President

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