PODRAVKA d.d., Koprivnica

Unconsolidated Financial Statements

At 31 December 2008

Together with Independent Auditor's Report

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RESPONSIBLITY FOR THE FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that 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 Podravka d.d. ('the Company') for that period.

After making enquiries, the Management Board has a reasonable expectation that the Company 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 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 financial statements; and
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Company 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 Company 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

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

We have audited the accompanying unconsolidated financial statements of Podravka d.d., Koprivnica ('the Company'), which comprise the unconsolidated balance sheet as at 31 December 2008, and the related unconsolidated income statement, unconsolidated 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 Financial Statements

Management is responsible for the preparation and fair presentation of these unconsolidated 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 financial statements.

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

INDEPENDENT AUDITOR'S REPORT (continued)

Matters affecting the opinion

As discussed in Note 20 to the financial statements, 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.

Opinion

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of the Company 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

Emphasis of matter

Without qualifying our opinon, we draw attention to the fact that the Company has prepared these unconsolidated financial statements under the Croatian laws and regulations and that the investments in subsidiary and associated undertakins have been presented in these financial statements at cost. In addition, the Company has prepared separate consolidated financial statements for Podravka d.d. and its subsidiaries, dated 30 March 2009. For a better understanding of the Group as a whole, the consolidated financial statements should be read in conjunction with these financial statements.

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor

30 March 2009

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of HRK)	**Notes**	**2008**	**2007**
Sales	5	2,166,776	2,198,859
Cost of goods sold	8	(1,500,184)	(1,490,225)
Gross profit		**666,592**	**708,634**
Investment revenue	6	107,498	102,577
Other gains, net	7	27,745	83,479
General and administrative expenses	9	(230,209)	(303,784)
Selling and distribution costs	10	(297,884)	(309,752)
Marketing expenses	11	(187,993)	(229,738)
Other expenses	12	(4,227)	(1,264)
Finance costs	15	(80,715)	(46,524)
Profit before tax		**807**	**3,628**
Income tax	17	9,015	-
Net profit		**9,822**	**3,628**
Earnings per share:	18		
- Basic		1.85	0.67
- Diluted		1.82	0.66

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

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	1,066,249	1,079,784
Intangible assets	21	208,464	164,409
Investments in subsidiaries	22	531,692	441,679
Deferred tax assets	17	9,015	-
Other financial assets	23	269,910	226,428
Total non-current assets		**2,085,330**	**1,912,300**
Current assets			
Inventories	24	296,789	277,730
Trade and other receivables	25	1,015,291	878,251
Financial assets at fair value through profit or loss	26	23,539	6,163
Cash and cash equivalents	27	222,447	54,270
Total current assets		**1,558,066**	**1,216,414**
Total assets		**3,643,396**	**3,128,714**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	28	1,587,356	1,628,467
Reserves	29	32,372	28,744
Retained earnings	30	9,822	3,628
		1,629,550	**1,660,839**
Non-current liabilities			
Financial liabilities at fair value through profit or loss	31	318,750	354,000
Long-term debt	32	468,335	76,197
Provisions	33	18,302	18,033
		805,387	**448,230**
Current liabilities			
Trade and other payables	34	566,175	511,352
Short-term borrowings	32	633,467	498,416
Provisions	33	8,817	9,877
		1,208,459	**1,019,645**
Total liabilities		**2,013,846**	**1,467,875**
Total liabilities and shareholders' equity		**3,643,396**	**3,128,714**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of HRK)	**Notes**	**Share capital**	**Reserves**	**Retained earnings**	**Total**
Balance at 1 January 2007		**1,421,644**	**51,982**	**3,770**	**1,477,396**
Net profit for the year		-	-	3,628	3,628
Total recognised income for 2007		-	-	3,628	3,628
Purchase of treasury shares		(57,526)	-	-	(57,526)
Options exercised		11,106	-	-	11,106
Fair value of share options		14,367	-	-	14,367
Dividend approved		-	(25,703)	(1,305)	(27,008)
Transfer to other and legal reserves		-	2,465	(2,465)	-
Call option on Company shares		238,876	-	-	238,876
Balance at 31 December 2007	28,29,30	**1,628,467**	**28,744**	**3,628**	**1,660,839**
Net profit for the year		-	-	9,822	9,822
Total recognised income for 2008		-	-	9,822	9,822
Purchase of treasury shares		(33,738)	-	-	(33,738)
Sale of treasury shares		266	-	-	266
Options exercised		3,882	-	-	3,882
Fair value of share options		(11,521)	-	-	(11,521)
Transfer to other and legal reserves		-	3,628	(3,628)	-
Balance at 31 December 2008	28,29,30	**1,587,356**	**32,372**	**9,822**	**1,629,550**

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

(in thousands of HRK)	**2008**	**2007**
Net profit	**9,822**	**3,628**
Deferred tax assets	(9,015)	-
Depreciation	90,893	99,076
Gains on sale of non current assets held for sale and fixed assets	(1,229)	(44,932)
Value adjustment of current assets	4,168	1,090
Value adjustment of non-current assets	-	(1,076)
Value adjustment of investment	8,324	(20,042)
Value adjustment of capital gains	(19,246)	585
Value adjustment of liabilities at fair value through profit or loss	(35,894)	(18,801)
Interest received	(27,983)	(29,017)
Interest paid	77,524	46,431
Effect of changes in foreign exchange rates	6,377	886
Other items not affecting cash	664	(108)
Changes in working capital:		
Increase in inventories	(17,882)	(29,121)
Increase in trade receivables	(153,908)	(174,718)
Increase in current assets	(25,070)	(46,278)
Increase in trade payables	15,351	168,217
Increase / (decrease) in other liabilities	25,693	(11,112)
Cash used in operations	**(51,411)**	**(55,292)**

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

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	(51,411)	(55,292)
Interest paid	(64,536)	(43,936)
Cash flows from investing activities	**(115,947)**	**(99,228)**
Cash flows from investing activities		
Acquisition of equity interest	(90,013)	-
Purchase of tangible and intangible assets	(132,759)	(308,231)
Sale of non current assets held for sale and tangible assets	12,575	67,662
Long-term loans given and deposits	(14,181)	(60,557)
Repayment of long-term loans given and deposits	65,610	73,685
Purchase of trading securities	(33,700)	(3,010)
Sale of trading securities	8,000	-
Short-term loans given and deposits	(149,618)	(20,484)
Repayment of short-term loans given and deposits	108,910	163,538
Loan interest received	10,299	12,376
Net cash used in investing activities	**(214,877)**	**(75,021)**
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	407,783	29,211
Repayment of long-term borrowings	(42,024)	(117,321)
Proceeds from short-term borrowings	703,840	721,600
Repayment of short-term borrowings	(548,733)	(426,000)
Dividends paid	-	(27,008)
Net cash from financing activities	**499,001**	**147,844**
Net increase / (decrease) in cash and cash equivalents	**168,177**	**(26,405)**
Cash and cash equivalents at the beginning of year	54,270	80,675
Cash and cash equivalents at the end of year	222,447	54,270

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

Podravka prehrambena industrija d.d., Koprivnica (the Company) is incorporated in the Republic of Croatia.

In 1934, the brothers Wolf open a fruit processing unit, the predecessor of Podravka, a today's leading company in South-Eastern and Central and Eastern Europe.

The principal activity of the Company comprises production of a wide range of foodstaffs and non-alcoholic beverages.

The Company 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.

Principal activities

The principal activity of the Company comprises production of a wide range of foodstaffs and non-alcoholic beverages.

Podravka is manufacturer of a wide range of branded food products, Vegeta and Podravka being the most reputed ones, which are sold in over 40 countries worldwide. In addition to the two top brands, other reputable brands include: Lino (dehydrated baby food), Dolcela (sweets), Kviki (snacks), Studena (the leading brand of spring water in Croatia), Studenac (natural mineral water), Talianetta, Fini-Mini, Eva, Lero, and many others.

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.

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

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
Member	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 Company's financial statements.

The adoption of these Interpretations has not led to any changes in the Company'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 Company'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 Company

The Company 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 Company 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 Company'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 Company, as there are no qualifying assets at the Company the construction of which would require any borrowed funds.

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS (continued)

2.3. Standards and Interpretations in issue but not yet adopted (continued)

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 Company will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as 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 Company will apply IFRS 2 (Amendment) from 1 January 2009. It is not expected to have a material impact on the Company's 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 Company will apply the IAS 32 and IAS 1(Amendment) from 1 January 2009. It is not expected to have any impact on the Company's 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 Company will apply IFRS 1 (Amendment) from 1 January 2009. The amendment will not have any impact on the Comopany's 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 Company will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS (continued)

2.3. Standards and Interpretations in issue but not yet adopted (continued)

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 Company 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 Company 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 Company 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 Company will apply the IAS 38 (Amendment) from 1 January 2009.

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS (continued)

2.3. Standards and Interpretations in issue but not yet adopted (continued)

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 Company will apply the IAS 19 (Amendment) from 1 January 2009. It is not expected to have an impact on the Company's 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 Company will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Company's income statement.

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS (continued)

2.3. Standards and Interpretations in issue but not yet adopted (continued)

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 Company will apply the IAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Company's 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 Company's 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 Company's operations because none of the Company's 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 Company's operations, as all intangible assets are amortised using the straight-line method.

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS (continued)

2.4. Interpretations and amendments to existing Standards that are not yet effective and not relevant for the Company'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 Company's operations because the Company does not operate any loyalty programmes.

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 Company's operations because it is the Company's policy for an investment in subsidiary to be recorded at cost in the stand-alone accounts of each entity.

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 Company 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.

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS (continued)

2.4 Interpretations and amendments to existing Standards that are not yet effective and not relevant for the Company's operations (continued)

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, 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 Company's operations, as there are no investment properties are held by the Company.

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. The amendment will not have an impact on the Company's operations as no agricultural activities are undertaken.

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 amendment will not have an impact on the Company's operations as there are no loans received or other grants from the government.

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 Company's operations as described above.

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 Company's operations as all revenue transactions are accounted for under IAS 18 and not IAS 11.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these 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 financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2. Basis of preparation

The financial statements of the Company 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 Company 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 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 Company's 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 Company has issued these non-consolidated financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2008 and for the year then ended, in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 30 March 2009. In the consolidated financial statements, subsidiary undertakings (listed in Note 22) – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2008 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Investments in subsidiaries

Investments in subsidiaries in which the Company has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations are recorded at cost, less impairment losses, if any. Impairment is tested annually whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Investments in subsidiaries for which an impairment loss has been recorded are tested at each reporting date for a potential reversal of impairment.

Reversal of impairment losses is performed where the estimates underlying the calculation of the recoverable amount have changes. Any resulting increase of the carrying amount of an investment is recognised to the extent of the carrying amount that would have been reported had no impairment losses been recognised in respect of the asset in prior years.

3.4. 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.

3.5. 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 Company’s activities. Revenue is shown, net of value-added tax, returns, rebates and discounts.

The Company 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 Company’s activities as described below.

(a) *Sales of products and trade goods – wholesale*

The Company manufactures and sells its own products and goods of third parties in the wholesale market. Sales of goods are recognised when the Company 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Revenue recognition (continued)

(a) Sales of products and trade goods – wholesale (continued)

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 Company 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 – retail products and goods

Sales of goods sold in retail stores are recognised when the Company 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 Company does not operate any loyalty programmes.

(c) Service sales

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the 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.

3.6. Leases

The Company leases certain property, plant and equipment. Leases of property, plant and equipment, where the Company 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 Company 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The financial statements are presented in Croatian kuna (HRK), which is the 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).

3.8. 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 Company does not capitalise borrowing costs.

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

3.9. 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. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 37.

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Dividends

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

3.11. 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.

3.12. Taxation

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

Current taxes

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 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Taxation (continued)

Deferred taxes (continued)

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 a 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 Company 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 Company 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.

3.13. Property, plant and equipment

Property, plant and equipment is 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Property, plant and equipment (continued)

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 Company 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 Company 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 3.15).

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

3.14. 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 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 3.15).

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).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Impairment of tangible and intangible assets

At each balance sheet date, the Company 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 Company 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 Company 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company 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 face of 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 Company 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 Company'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 Company's equity holders.

3.20. Employee benefits

(a)Pension obligations and post-employment benefits

In the normal course of business through salary deductions, the Company 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 Company does not have any other pension scheme and consequently, has no other obligations in respect of employee pensions. In addition, the Company is not obliged to provide any other post-employment benefits.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Employee benefits (continued)

(c)Regular termination 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 Company 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 Company 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Provisions

Provisions are recognized when the Company 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 Copmpany 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

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 is a part of an identified portfolio of financial instruments that the Company 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 36.

Held-to-maturity investments

Bills of exchange and debentures with fixed or determinable payments and fixed maturity dates that the Company 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

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 36. 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 Company'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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

Impairment of financial assets (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

Derecognition of financial assets

The Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company 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 Company

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’.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial liabilities and equity instruments issued by the Company (continued)

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 Company 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 Company'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 36.

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial liabilities and equity instruments issued by the Company (continued)

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company’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 Company'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 Company 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 10,663 thousand. There have been no changes in the useful lives of non-current assets during 2008.

Impairment of non-current assets

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. Based on a change in the underyling estimate in 2007, HRK 19,935 thousand were credited to income.

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.

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. Provisions for retirement bonuses and jubilee awards amounted to HRK 11,681 thousand and HRK 4,597 thousand at 31 December 2008 (2007: total provisions amounted to HRK 16,252 thousand) (see notes 33 and 35).

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES (continued)

Consequences of certain legal actions

There are a number of legal actions involving the Company, 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 33).

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 Company 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.

Company’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 Company has subsequently changed investment strategy based on the circumstances coming from the security market.

NOTE 5 – SALES

	2008		2007	
	Sales		Sales	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Sales of products:				
Food and beverages	1,615,348	74.6	1,632,875	74.3
Food and beverages – Group	446,505	20.6	430,787	19.6
	2,061,853		2,063,662	
Other sales:				
Services	6,472	0.3	6,610	0.3
Services – Group	98,451	4.5	128,587	5.8
	104,923		135,197	
	2,166,776	**100**	**2,198,859**	**100**

Segment information

Primary reporting format – geographical segments

The Company monitors realised income and gross profit based on the following geographical environments:

- Croatia and
- Foreign countries

The results of the stated segments for the year ended 31 December 2007 were as follows:

(in thousands of HRK)	Croatia	Foreign countries	Unallocated	Total
Sales	1,568,068	630,791	-	**2,198,859**
Cost of goods sold	(1,046,195)	(444,030)	-	**(1,490,225)**
Gross profit	521,873	186,761	-	**708,634**
Profit from operations			50,152	**50,152**
Finance costs				**(46,524)**
Profit before tax				**3,628**
Income tax				-
Profit for the year				**3,628**

NOTE 5 – SALES (continued)

Segment information (continued)

The results of the stated segments for the year ended 31 December 2008 are as follows:

(in thousands of HRK)	Croatia	Foreign countries	Unallocated	Total
Sales	1,513,566	653,210	-	**2,166,776**
Cost of goods sold	(1,034,739)	(465,445)	-	(1,500,184)
Gross profit	478,827	187,765	-	**666,592**
Profit from operations			81,522	**81,522**
Finance costs				(80,715)
Profit before tax				**807**
Income tax				9,015
Profit for the year				**9,822**

The segment trade receivables and liabilities as at 31 December 2007 and for the year then ended were as follows:

(in thousands of HRK)	Croatia	Foreign countries	Unallocated	Total
Trade and other receivables, and other financial assets	905,642	199,037	-	1,104,679
Trade and other payables	432,068	79,284	-	511,352
Borrowings	783,575	145,038	-	928,613

All other assets and liabilities of the Company are located in the geographical segment Croatia.

The segment trade receivables and liabilities as at 31 December 2008 and for the year then ended are as follows:

(in thousands of HRK)	Croatia	Foreign countries	Unallocated	Total
Trade and other receivables, and other financial assets	1,068,246	216,955	-	1,285,201
Trade and other payables	472,975	93,200	-	566,175
Borrowings	966,438	454,114	-	1,420,552

NOTE 6 – INVESTMENT REVENUE

	2008	2007
	(in thousands of HRK)	
Dividends received	79,515	73,560
Interest on loans and receivables – Group entities	12,664	13,718
Interest on loans	7,848	2,179
Interest on term-deposits and trade debtors	7,471	13,120
	107,498	**102,577**

Investment revenue analysed by asset category:

	2008	2007
	(in thousands of HRK)	
Equity investments in subsidiaries	79,515	73,560
Other financial assets	20,512	15,897
Trade and other receivables	7,471	13,120
	107,498	**102,577**

NOTE 7 – OTHER GAINS, NET

	2008	2007
	(in thousands of HRK)	
Gains on financial assets at fair value through profit or loss	35,894	18,801
Gains on disposal of non-current assets held for sale and fixed assets – net	1,229	44,932
(Losses) / gains on value adjustment of investments, net	(8,324)	20,042
	28,799	**83,775**
Foreign exchange losses, net	(1,054)	(296)
	27,745	**83,479**

NOTE 8 – COST OF GOODS SOLD

	2008	2007
	(in thousands of HRK)	
Cost of goods sold	661,990	699,823
Raw material and supplies	507,283	467,608
Staff costs	200,789	205,478
Depreciation	67,328	62,531
Energy	39,062	34,224
Maintentance	15,042	13,201
Other costs (transport, rental, professional training, etc.)	8,690	7,360
	1,500,184	**1,490,225**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2008	2007
	(in thousands of HRK)	
Staff costs	136,789	175,860
Services (maintenance, communal services, graphic services, and similar)	16,950	49,278
Depreciation	16,063	12,669
Depreciation	14,287	7,936
Depreciation	9,220	7,539
Taxes and contributions independent of operating results	8,288	5,643
Telecommunications	5,881	6,675
Consultancy services	4,390	18,560
Entertainment	4,238	5,027
Provisions for accrued expenses	3,558	1,605
Other cost of material and energy	3,066	3,212
Per diems and other business travel expenses	2,917	4,401
Other costs	4,562	5,589
	230,209	**303,784**

NOTE 10 – SELLING AND DISTRIBUTION EXPENSES

	2008	2007
	(in thousands of HRK)	
Staff costs	144,775	146,602
Rentals	38,934	38,129
Transport	24,073	26,221
Energy	18,208	15,713
Other services (distribution, intellectual, student service, handling)	17,345	14,134
Maintenance	8,811	9,327
Depreciation	7,013	23,326
Inventory disposals and deficits	6,195	3,318
Per diems and other business travel expenses	5,057	5,649
Telecommunications	3,854	5,370
Net provisions for receivables	4,261	2,820
Taxes and contributions independent of operating result	2,868	3,670
Professional literature and administrative duties	2,590	1,150
Insurance premiums	1,841	1,803
Other expenses	12,059	12,520
	297,884	**309,752**

Other selling and distribution expenses relate to literature, education and representation costs.

NOTE 11 – MARKETING EXPENSES

	2008	2007
	(in thousands of HRK)	
Marketing – for traders and consumers	60,520	64,394
Media investments	49,558	85,623
Institutional promotion	32,889	29,714
Staff costs	22,555	24,162
Market research	3,099	4,190
Services	6,746	8,567
Taxes and contributions independent of operating result	3,272	3,589
Other expenses	9,354	9,499
	187,993	**229,738**

Other marketing expenses comprise per diems, rental costs, entertainment and telecommunication costs.

NOTE 12 – OTHER EXPENSES

	2008	2007
	(in thousands of HRK)	
Interest expense on trade payables	3,185	793
Write-off of loans to the Group	1,042	471
	4,227	**1,264**

NOTE 13 – EXPENSES BY NATURE

	2008	2007
	(in thousands of HRK)	
Cost of goods sold	640,803	672,505
Raw material, supplies and energy	592,814	550,726
Staff costs	504,908	552,102
Advertisning and promotion	146,066	183,921
Depreciation	90,893	99,076
Services (maintenance, distribution, consultancy, fraight forwarding, and similar service costs)	64,492	106,921
Rental costs	55,985	48,339
Transport	26,272	28,394
Taxes and contributions independent of operating results	24,249	19,755
Telecommunications	11,606	14,131
Per diems and other busines travel expenses	10,982	13,192
Bank charges	9,220	7,539
Entertainment	8,043	9,406
Provisions for trade and other receivables	6,317	4,000
Packaging waste disposal fee	6,005	6,585
Other expenses (insurance premium, design services, professional training and literature, administrative duties, court costs)	17,615	16,907
	2,216,270	**2,333,499**

NOTE 14 – STAFF COSTS

	2008	**2007**
	(in thousands of HRK)	
Salaries	474,120	480,950
Termination benefits	13,865	29,309
Share options	(11,521)	14,367
Provisions for annual vacations, termination benefits and jubilee awards	11,142	11,834
Transportation	6,692	6,784
Other employee benefits	10,610	8,858
	504,908	**552,102**

As at 31 December 2008, the number of staff employed by the Company was 4,044 (2007: 4,136).

In 2008, the Company accrued and paid retirement incentives in the amount of HRK 17,562 thousand for 89 employees (2007: HRK 29,309 thousand for 201 employees).

NOTE 15 – FINANCE COSTS

	2008	**2007**
	(in thousands of HRK)	
Interest expense on short-term borrowings	40,383	19,958
Interest expense on issued bonds	19,238	19,227
Interest expense on long-term borrowings	14,717	6,352
Finance cost on call options on own shares	-	101
	74,338	45,638
Net foreign exchange losses on borrowings	6,377	886
	80,715	**46,524**

NOTE 16 – NET FOREIGN EXCHANGE LOSSES

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

	2008	**2007**
	(in thousands of HRK)	
Finance costs	6,377	886
Other losses, net	1,054	296
	7,431	**1,182**

NOTE 17 – INCOME TAX

The tax on the Company's profit before tax differs from the notional amount that would arise using the weighted average tax rate of 20% (2007: 20%) applicable to the Company's profit as follows:

	2008	2007
	(in thousands of HRK)	
Profit before taxation	807	3,628
Tax calculated at weighted average tax rates applicable to the Company's profits	161	726
Effect of permanent differences, net	(21,542)	(5,505)
Effect of tax benefits (research and development, education and other allowances)	(1,382)	(634)
Effect of tax losses brought forward	13,748	5,413
Tax income recognised in the income statement	**(9,015)**	**-**

Unused tax losses:	**2008**	**2007**
	(in thousands of HRK)	
Unused tax losses	162,137	117,534

The availability of unused tax losses expires as follows:

Up to 2008	-	24,139
Up to 2009	-	-
Up to 2010	-	-
Up to 2011	66,334	66,334
Up to 2012	27,061	27,061
Up to 2013	68,742	-

In accordance with Croatian tax regulations, by the end of 2008, the Company realised tax losses in the amount of HRK 162,137 thousand (2007: 117,534 thousand), which may be utilised up to 2013 at the latest. Unused tax losses have not been 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.

NOTE 17 – INCOME TAX (continued)

Deferred tax assets arise from the following:

	Opening balance	Charged to income statement	Closing balance
		(in thousands of HRK)	
Provisions for jubilee awards	-	2,336	2,336
Value adjustment of inventories	-	2,233	2,233
Value adjustment of equity investments	-	1,665	1,665
Vacation accruals	-	1,452	1,452
Provisions for termination benefits	-	991	991
Provisions for other accruals	-	338	338
	-	**9,015**	**9,015**

Unrecognised deferred tax assets

The following deferred tax assets have not been recognised at the balance sheet date:

	2008	2007
	(in thousands of HRK)	
Jubilee awards	-	2,292
Termination benefits	-	959
Vacation accrual	-	1,672
Tax losses	32,427	23,507
	32,427	**28,430**

In accordance with local regulations, the tax authorities may at any time inspect the Company's books and records within 3 years subsequent to the year in which the tax liability is reported, and may impose additional tax assessments and penalties. The Company’s management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share are determined by dividing the Company'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)	9,822	3,628
Weighted average number of shares	5,322,219	5,388,817
Basic earnings per share (in HRK)	**1.85**	**0. 67**

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 73,549 were not exercised (2007: 92,089 options):

	2008	2007
Net profit/loss attributable to shareholders (in thousands of HRK)	9,822	3,628
Adjustment for share options	73,549	92,089
Weighted average number of shares in issue for diluted earnings per share	5,395,768	5,480,906
Diluted earnings per share (in HRK)	**1.82**	**0.66**

NOTE 19 – DIVIDENDS PER SHARE

As at 22 July 2008, the Company’s General Assembly reached a decision on the distribution of profit for the financial year 2007 by not approving payment of dividends on ordinary shares, but the whole profit is distributed in Company’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 34).

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
Cost				
At 1 January 2007	1,161,878	861,451	119,682	2,143,011
Additions	946	3,112	163,834	167,892
Transfers	78,198	37,362	(115,560)	-
Disposals and retirements	(68,416)	(18,534)	-	(86,950)
At 31 December 2007	**1,172,606**	**883,391**	**167,956**	**2,223,953**
Accumulated depreciation				
At 1 January 2007	(512,453)	(613,462)	-	(1,125,915)
Additions	(538)	(2,590)	-	(3,128)
Disposals and retirements	48,759	18,065	-	66,824
Charge for the year	(35,074)	(46,876)	-	(81,950)
At 31 December 2007	**(499,306)**	**(644,863)**	**-**	**(1,144,169)**
Carrying amount at 31 December 2007	**673,300**	**238,528**	**167,956**	**1,079,784**

Cost				
At 1 January 2008	1,172,606	883,391	167,956	2,223,953
Additions	-	1,583	81,530	83,113
Transfers	64,457	89,253	(153,710)	-
Disposals and retirements	(473)	(36,437)	(10,401)	(47,311)
At 31 December 2008	**1,236,590**	**937,790**	**85,375**	**2,259,755**
Accumulated depreciation				
At 1 January 2008	(499,306)	(644,863)	-	(1,144,169)
Additions	-	(1,163)	-	(1,163)
Disposals and retirements	402	35,566	-	35,968
Charge for the year	(38,536)	(45,606)	-	(84,142)
At 31 December 2008	**(537,440)**	**(656,066)**	**-**	**(1,193,506)**
Carrying amount at 31 December 2008	**699,150**	**281,724**	**85,375**	**1,066,249**

Company buildings and land worth HRK 480,936 thousand (2007: HRK 487,513 thousand) have been mortgaged against the Company's borrowings.

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT (continued)

	2008	2007
	(in thousands of HRK)	
Cost of capitalised finance leases	62,586	62,311
Accumulated depreciation	(6,897)	(2,256)
Net book value	**55,689**	**60,055**

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 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**	**Distribution right**	**Brand**	**Total**
Cost				
At 1 January 2007	98,032	67,694	15,500	181,226
Additions	15,639	12,000	115,871	143,510
Disposals and retirements	(506)	-	-	(506)
At 31 December 2007	**113,165**	**79,694**	**131,371**	**324,230**
Accumulated amortisation				
At 1 January 2007	(89,003)	(55,231)	-	(144,234)
Additions	(43)	-	-	(43)
Disposals and retirements	506	-	-	506
Impairment	-	1,076	-	1,076
Charge for the year	(3,587)	(13,539)	-	(17,126)
Balance at 31 December 2007	(92,127)	(67,694)	-	(159,821)
Carrying amount at 31 December 2007	**21,038**	**12,000**	**131,371**	**164,409**
Cost				
At 1 January 2008	113,165	79,694	131,371	324,230
Additions	14,932	-	35,874	50,806
Disposals and retirements	(84)	(67,694)	-	(67,778)
At 31 December 2008	**128,013**	**12,000**	**167,245**	**307,258**
Accumulated amortisation				
At 1 January 2008	(92,127)	(67,694)	-	(159,821)
Disposals and retirements	84	67,694	-	67,778
Charge for the year	(4,351)	(2,400)	-	(6,751)
Balance at 31 December 2008	**(96,394)**	**(2,400)**	**-**	**(98,794)**
Carrying amount at 2008	**31,619**	**9,600**	**167,245**	**208,464**

NOTE 22 – 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**	

NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)

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 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 23 – OTHER FINANCIAL ASSETS

	2008	2007
	(in thousands of HRK)	
Loans to related companies	213,092	165,603
Loans	53,949	58,136
Deposits	2,869	2,689
	269,910	**226,428**

NOTE 24 – INVENTORIES

	2008	2007
	(in thousands of HRK)	
Raw materials and supplies	102,724	90,021
Work in progress	32,865	39,556
Finished goods	94,840	88,871
Trade goods	66,360	59,282
	296,789	**277,730**

In 2008, a reversal of impairment losses in the amount of HRK 1,177 thousand was credited to certain inventories (2007: HRK 1,766 thousand charged), which is included in the income statement in line item 'Cost of goods sold'.

NOTE 25 – TRADE AND OTHER RECEIVABLES

	2008	2007
	(in thousands of HRK)	
Current receivables		
Trade receivables	450,552	374,158
Less: Provisions for impairment	(52,783)	(55,712)
Net trade receivables	397,769	318,446
Intragroup trade receivables	294,101	236,820
Short-term deposit	148,639	108,910
Intragroup loans given	90,923	61,993
Loans given	18,542	625
Advances to suppliers	4,535	454
Bills of exchange received	2,987	31,523
Other receivables	57,795	119,480
	1,015,291	**878,251**

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

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

	2008	2007
	(in thousands of HRK)	
At 1 January	55,712	57,193
Increase	5,255	3,964
Collected	(2,039)	(1,144)
Written off as uncollectible	(6,145)	(4,301)
At 31 December	**52,783**	**55,712**

In 2008, the expense of the provision for trade receivables, i.e. the income from the collection of trade receivables previously provided for is included in 'Selling and distribution costs'.

Ageing analysis of trade receivables past due but not impaired

	2008	2007
	(in thousands of HRK)	
0-90 days	168,853	141,110
91-180 days	57,267	42,834
181-360 days	37,802	5,988
	263,922	**189,932**

NOTE 25 – TRADE AND OTHER RECEIVABLES (continued)

Other receivables at 31 December were as follows:

	2008	2007
	(in thousands of HRK)	
Net VAT receivable	13,609	24,702
Other loans and interests receivable from related companies	20,340	13,746
Profit distributions from related entities	7,970	73,944
Interest receivable on domestic loans	7,884	1,134
Prepaid expenses	3,677	916
Receivables from employees	1,666	3,017
Other receivables – gross	4,092	3,625
Impairment allowance for other receivables	(1,443)	(1,604)
	57,795	**119,480**

In 2008, an impairment allowance for other receivables in the amount of HRK 17 thousand (2007: HRK 36 thousand) was presented within 'Selling and distribution expenses', i.e. the expense analysis by nature.

NOTE 26 – 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**

NOTE 26 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

In 2008, shares were purchased in the investment fund ST Investa in the total amount of HRK 30,200 thousand, and in the investment fund FIMA Equity 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 27 – CASH AND CASH EQUIVALENTS

	2008	**2007**
	(in thousands of HRK)	
Cash with banks	222,388	54,132
Cash in hand	52	136
Cheques received	7	2
	222,447	**54,270**

NOTE 28 – 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**	**(197,646)**	**(6,711)**	**1,421,644**
Purchase of treasury shares	(109,402)	-	-	(57,526)	(57,526)
Employee share options:					
- options exercised	52,918	-	(13,782)	24,888	11,106
- fair value of options	-	-	14,367	-	14,367
Call option on Company shares	-	-	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:					
- 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 1,626,000,900, distributed among 5,420,003 shares (2007: HRK 1,626,000,001 and 5,420,003 shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid.

The Employee Share Option Plan is described in detail in Note 37 to the financial statements.

NOTE 29 – RESERVES

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Reserves for treasury shares**	**Total**
At 1 January 2007	5,880	41,376	4,726	51,982
Dividends declared	-	(25,703)	-	(25,703)
Transfer to reserves	297	182	1,986	2,465
At 31 December 2007	**6,177**	**15,855**	**6,712**	**28,744**
At 1 January 2008	6,177	15,855	6,712	28,744
Dividend declared	-	-	-	-
Transfer to reserves	181	(15,855)	19,302	3,628
At 31December 2008	**6,358**	**-**	**26,014**	**32,372**

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 Company's Articles of Association.

According to the decision of the General Assembly of the Company in July 2008 the Company'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 3,447 thousand. Other reserves in the amount of HRK 15,855 thousand were transferred to the treasury share reserve.

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.

NOTE 30 – RETAINED EARNINGS

	2008	**2007**
	(in thousands of HRK)	
At 1 January	3,628	3,770
- Transfer to legal and other reserves	(3,628)	(2,465)
- Dividends paid	-	(1,305)
- Net profit for the period	9,822	3,628
At 31 December	**9,822**	**3,628**

NOTE 31 – 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 32 – OBVEZE PO KREDITIMA

	2008	2007
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	37,467	47,463
Banks in foreign countries	402,418	-
Finance lease	28,450	28,734
	468,335	**76,197**
Current borrowings		
Banks in Croatia	534,992	350,910
Banks in foreign countries	51,696	145,037
Finance lease	2,568	1,710
Reverse factoring	42,700	-
Other	1,511	759
	633,467	**498,416**
Total borrowings	**1,101,802**	**574,613**

Bank borrowings in the amount of HRK 581,951 thousand (2007: HRK 90,373 thousand) are secured by mortgages over the Company's land and buildings.

NOTE 32 – BORROWINGS (continued)

The finance lease liabilities 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	4,868	4,010	2,300	2,300	2,568	1,710
Between 1 and 5 years	14,758	13,798	7,711	9,804	7,047	3,994
After 5 years	29,876	33,199	8,473	8,459	21,403	24,740
Less: future finance charges	**(18.484)**	**(20,563)**	**(18,484)**	**(20,563)**	**31,018**	**30,444**
Present value of minimum lease payments	**31.018**	**30,444**			**31,018**	**30,444**

Included in the financial statements within:		
Current borrowings	2,568	1,710
Non-current borrowings	28,450	28,734
	31,018	**30,444**

The exposures of the Company'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	931,486	137,228
6 – 12 months	132,849	225,188
1 – 5 years	37,467	183,558
Over 5 years	-	28,639
	1,101,802	**574,613**

If the interest rate on borrowings at variable rates increases by 4.22 % on average, the liability in respect of interest would increase by HRK 4,483 thousand.

The maturity of non-current borrowings is as follows:

	2008	2007
	(in thousands of HRK)	
Between 1 and 2 years	79,830	11,656
Between 2 and 5 years	291,479	35,902
Over 5 years	97,026	28,639
	468,335	**76,197**

NOTE 32 – BORROWINGS (continued)

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

	2008		2007	
	HRK	EUR	HRK	EUR
	%	%	%	%
Non-current borrowings				
Banks in Croatia	-	5.00	-	5.10
Banks in foreign countries	-	7.34	-	-
Finance lease	-	8.18	-	7.76
Current borrowings				
Banks	7.95	7.51	4.92	6.20
Other	5.00	-	4.72	-

During 2007, long-term borrowings were repaid in accordance with the 2008 repayment schedule. In 2008, the Company used a long-term loan of EUR 17 million for fixed assets, extended by Hypo Alpe-Adria Bank, Klagenfurt, for a term of six years and with interest charged at 6-month EURIBOR + 2% annually, and a long-term loan of EUR 40 million for working capital purposes, granted by the Erste Group, Vienna, for a term of six years and with interest charged at 6-month EURIBOR + 2% annually.

The carrying amounts and fair values 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	37,467	47,463	37,009	43,912
Banks in foreign countries	402,418	-	402,418	
Finance lease liabilities	28,450	28,734	28,450	28,734
	468,335	**76,197**	**467,877**	**72,646**

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	569,211	327,759
EUR	532,591	246,854
	1,101,802	**574,613**

NOTE 32 – BORROWINGS (continued)

The Company has the following undrawn borrowing facilities:

	2008	2007
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	73,323	81,941
	73,323	**81,941**

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.

NOTE 33 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Vacation accrual	Termination benefits	Legal actions	Total
Analysis of total provisions as at 31 December 2007:					
Non-current	9,943	-	4,794	3,296	18,033
Current	1,515	8,362	-	-	9,877
	11,458	**8,362**	**4,794**	**3,296**	**27,910**
At 1 January 2008					
Expense/(income) in the income statement:					
Increase in provisions	1,731	6,282	219	108	8,340
Utilised during the year	(1,508)	(7,384)	(56)	(183)	(9,131)
At 31 December 2008	**11,681**	**7,260**	**4,957**	**3,221**	**27,119**
Analysis of total provisions as at 31 December 2008:					
Non-current	10,124	-	4,957	3,221	18,302
Current	1,557	7,260	-	-	8,817
	11,681	**7,260**	**4,957**	**3,221**	**27,119**

Employee benefits

This provision comprises estimated employee benefits relating to unused vacation days and jubilee awards, as defined by the collective bargaining agreement. The non-current provision in the amount of HRK 10,124 thousand (2007: HRK 9,943 thousand) relates to the estimated acquired rights to jubilee awards that will be paid after 2008.

The current amount of employee benefits includes HRK 7,260 thousand (2007: HRK 8,362 thousand) in respect of unused vacation days and HRK 1,557 thousand (2007: HRK 1,515 thousand) in respect of jubilee awards that will be paid in 2008.

NOTE 33 – PROVISIONS (continued)

Termination benefits

In 2008, a long-term provision of HRK 4,974 thousand for regular termination benefits was made (2007: HRK 4,794 thousand).

Legal proceedings

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

Based on the expert opinion of legal counsel, the Company'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 34 – TRADE AND OTHER PAYABLES

	2008	2007
	(in thousands of HRK)	
Trade payables	366,347	367,255
Trade payables – intragroup transactions	96,129	74,196
Other liabilities	103,699	69,901
	566,175	**511,352**

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

Other payables include the following:

	2008	2007
	(in thousands of HRK)	
Salaries and other payments to employees	43,521	37,073
Accrued interest not yet due on bonds and borrowings	24,050	16,740
Accrued expenses	30,334	6,381
Taxes, contributions and other duties payable	2,064	874
Dividends payable	1,780	2,087
Package waste disposal fee payable	(657)	5,533
Other	2,607	1,213
	103,699	**69,901**

NOTE 35 – RETIREMENT BENEFIT PLAN

Defined benefit plan

According to the Collective Agreement the Company has obligation to pay jubilee awards, retirement and other benefits to employees. The Company 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 10,000, of which HRK 2,000 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 Company 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 December 2008 by the actuaries of the firm Aktuarijat Sanjković d.o.o. In 2008, the Company made a provision of HRK 11,681 thousand for jubilee awards and HRK 4,957 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
Discount rate	6.4%
Fluctuation rate	5.39%
Average expected remaining working lives (in years)	22

NOTE 35 – DEFINED BENEFIT PLAN (continued)

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

	2008	2007
	(in thousands of HRK)	
Current service cost	812	845
Interest expense	952	789
Benefits paid	(1,564)	(1,549)
Other actuarial adjustments	(70)	(568)
Net actuarial losses for the year	256	2,439
	386	**1,956**

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

	2008	2007
	(in thousands of HRK)	
Present value of jubilee awards	11,681	11,458
Present value of termination benefits	4,957	4,794
Obligation reported in the balance sheet	**16,638**	**16,252**

Of which by maturity:

	2008	2007
	(in thousands of HRK)	
Short-term	1,557	1,515
Long-term	15,081	14,737
	16,638	**16,252**

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

	2008	2007
	(in thousands of HRK)	
At 1 January	16,252	14,296
Current service cost	812	845
Interest expense	952	789
Actuarial gains and losses	256	2,439
Benefits paid	(1,564)	(1,549)
Other actuarial adjustments	(70)	(568)
At 31 December	**16,638**	**16,252**

NOTE 36 – FINANCIAL INSTRUMENTS

36.1. 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)	1,420,552	928,613
Cash and cash equivalents	(222,447)	(54,270)
Net debt	1,198,105	874,343
Equity	1,629,550	1,660,839
Net debt to equity ratio	73.52%	52.64%

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

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Company’s overall strategy remains unchanged from 2007.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 32, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 28, 29 and 30 respectively.

36.2. 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 financial statements.

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.3. Categories of financial instruments

	2008	2007
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,504,661	1,127,426
Held-to-maturity bills	2,987	31,523
At fair value through profit or loss	23,539	6,163
Financial liabilities		
Financial lease liabilities	31,018	30,444
Borrowings	1,070,784	544,169
Trade and other payables	566,175	511,352
At fair value through profit or loss	318,750	354,000

36.4. Financial risk management objectives

The Company operates internationally and finances its operations using foreign currency denominated borrowings to a significant extent. As a result, the Company 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 Company is exposed to a risk of default.

The Treasury function at Podravka provides financial services for Podravka and coordinates the financial operations of the Company 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 Company does not use any derivatives to manage its risks or for speculative purposes.

36.5. 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 60 % of the products sold at Podravka as a food manufacturer in the sales.

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 Podravka.

Sales function based risk

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

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.6. Foreign exchange risk management

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. The carrying amounts of the Company'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)	618,704	316,030	325,741	185,605
USA (USD)	2,073	9,276	6,007	17,079
Other currencies	137	834	31,272	26,247

Foreign currency sensitivity analysis

The Company 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 Company's sensitivity to a 1.00 % decrease in Croatian kuna against the relevant foreign currencies (2007: a decrease of 0.38 %). 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 only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the above specified percentage of change in foreign currency 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	4,177	447	43	-
Loss	-	-	-	179

	Impact of other currencies	
	2008	2007
	(in thousands of HRK)	
Profit	4,440	-
Loss	-	837

The exposure to the fluctuations in exchange rates by 1 % is mainly attributable to the borrowings, trade payables and receivables from related companies denominated in Euro (EUR) and US dollar (USD).

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.7. Interest rate risk management

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

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for both derivatives and non-derivative instruments 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 Company as of 31 December 2008 would have changed by HRK 4,483 thousand (2007: HRK 2,437 thousand). Because of increased long-term debt at variable rates, the impact of a potential changes in interest rates on profit has increased.

36.8. Other price risk

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

36.9. Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company 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.

The Company'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.

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.9. Credit risk management (continued)

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

36.10. 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 Company's short, medium and long-term funding and liquidity management requirements. The Company 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 Company's remaining contractual maturity for its financial liabilities from the balance sheet date.

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		462,205	86,802	25,984	-	18,302	593,293
Interest bearing	7.28	214	287,885	402,609	820,580	108,735	1,620,023
		462,419	374,687	428,593	820,580	127,037	2,213,316
2007							
Non-interest bearing	-	367,419	131,204	22,605	-	18,033	539,261
Interest bearing	5.16	4,998	282,473	275,832	482,163	29,879	1,075,345
		372,417	413,677	298,437	482,163	47,912	1,614,606

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 369,471 thousand for the year 2008 (2007: HRK 313,802 thousand) and amounts due to employees in the amount of HRK 43,521 thousand (2007: HRK 37,073 thousand).

The non-interest bearing liabilities of the Company due in a period of over five years include, among thers, long-term provisions in the amount of HRK 18,302 thousand in 2008 (2006: HRK 18,033 thousand).

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

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.10. Liquidity risk management (continued)

The tables below detail the remaining contractual maturities of the Company'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		507,041	203,364	46,834	-	-	757,239
Interest bearing	4,29	232,824	179,843	92,999	292,631	4,348	802,645
		739,865	383,207	139,833	292,631	4,348	1,559,884
2007							
Non-interest bearing	-	473,929	195,561	38,213	-	-	707,703
Interest bearing	3,98	60,563	124,027	59,467	249,645	1,968	495,670
		534,492	319,588	97,680	249,645	1,968	1,203,373

36.11. 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 2007, 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 37 – 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. 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 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:

The following share-based payment arrangements were in existence during the current reporting period:

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	77,549					
Opening blance + transfers	92,089					
Series 4	3,000	2003	2008	184.36	171.00	261.00
Series 4 – transfer	6,540	2003	2008	110.62	171.00	261.00
Series 5	22,916	2004	2009	198.04	239.00	261.00
Series 5 – transfer	8,000	2004	2009	118.82	239.00	261.00
Series 6	11,750	2005	2010	296.69	318.00	261.00
Series 7	39,883	2007	2012	503.30	510.00	261.00
Options granted during 2008						
Series 8	26,999	2008	2013	361.14	261.00	261.00

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	318.00	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 volatitlity (%)	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

NOTE 37 – SHARE-BASED PAYMENTS (continued)

Overview of option balances and exercised options

	2008 Number of options	2008 Weighted average exercise price	2008 Weighted average price at exercise date	2007 Number of options	2007 Weighted average exercise price	2007 Weighted average price at exercise date
Balance at beginning of year	92,089	329.30	-	80,374	210.79	-
Granted during the year	26,999	361.14	-	48,633	466.13	-
Unused/transferred	(22,586)	309.29	-	16,000	114.72	-
Exercised during the year	(22,953)	169.16	400.41	(52,918)	209.88	545.48
Total exercised during the year	(22,953)	169.16	400.41	(52,918)	209.88	545.48
Balance at end of year	**73,549**	**397.11**		**92,089**	**329.30**	

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

Options exercised in 2008

Option series	Number exercised	Exercise date	Price at exercise date
Series 4 – transfer	6,540	2008	487.45
Series 5	2,913	2008	330.87
Series 5 – transfer	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	30,300	2007	2012	515.57	510.00	261.00
Series 8	26,999	2008	2011	361.14	261.00	261.00
Balance at end of year	**73,549**					

As at 31 December 2008, 73,549 options became vested (2007: 92,089). 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 38 – RELATED-PARTY TRANSACTIONS

Related party transactions include operating business transactions with Podravka Group companies. Items resulting from these transactions and balances as at 31 December 2008 and 31 December 2007 are as follows:

REVENUE

	2008	2007
	(in thousands of HRK)	
Sales - products and trade goods	446,505	430,787
Service sales	98,451	128,587
	544,956	**559,374**

	Sales - products and trade goods		Service sales	
	2008	2007	2008	2007
	(in thousands of HRK)		*(in thousands of HRK)*	
Group company:				
Belupo d.d., Koprivnica	912	546	30,880	29,853
Danica d.o.o., Koprivnica	12,168	17,877	51,258	83,350
Ital-Ice d.o.o., Poreč	225	238	1,469	1,512
Podravka d.o.o., Ljubljana	74,627	72,185	388	799
Podravka d.o.o., Beograd	54,008	48,003	2,507	3,089
Podravka d.o.o.e.l., Skopje	30,768	30,754	366	765
Podravka d.o.o., Sarajevo	139,341	129,938	2,807	2,215
Podravka-Int.Deutschland-"Konar" GmbH	41,292	36,983	1,394	1,149
Podravka-International kft, Budapest	14,225	14,859	606	352
Podravka-International Pty Ltd, Sydney	20,661	21,075	1,128	918
Podravka-International s r.o., Bratislava	14,996	14,669	233	147
Podravka-Polska Sp.z o.o., Kostrzyn	5,870	5,529	4,037	3,729
Podravka d.o.o., Podgorica	26,596	21,537	659	468
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	10,768	16,589	623	121
Other companies	48	5	96	120
Total related party sales	**446,505**	**430,787**	**98,451**	**128,587**

NOTE 38 – RELATED-PARTY TRANSACTIONS (continued)

Investment revenue

	2008	2007
	(in thousands of HRK)	
Interest income	12,664	13,718
Profits of subsidiaries	79,515	73,559
	92,179	**87,277**

EXPENSES

Remuneration to the Management Board members and executives

	2008	2007
	(in thousands of HRK)	
Salaries	29,961	28,539
Share options through income statement	(11,521)	14,367
	18,440	**42,906**

LOAN RECEIVABLES

Loan receivables – long-term:

	2008	2007
	(in thousands of HRK)	
At beginning of year	227,596	304,983
Increase during the year	145,000	4,557
Repayments received	(65,339)	(72,066)
Other movements	(3,114)	(9,756)
Foreign exchange difference	(128)	(122)
At end of year	304,015	227,596
Maturity: one year or less	(90,923)	(61,993)
	213,092	**165,603**

NOTE 38 – RELATED-PARTY TRANSACTIONS (continued)

Loan receivables – current:

	2008	2007
	(in thousands of HRK)	
At beginning of year	-	-
Increase during the year	979	20,484
Repayments received	(1,031)	(20,448)
Foreign exchange difference	52	(36)
At end of year	-	-
Maturity: one year or less	90,923	61,993
	90,923	**61,993**
Total loan receivables	**304,015**	**227,596**

The reported receivables from related parties include long-term loans to subsidiaries as follows:

	Interest rate	2008	2007
		(in thousands of HRK)	
Belupo d.d., Koprivnica	7% p.a.	267,571	172,095
Danica d.o.o., Koprivnica	7% p.a.	30,953	44,709
Ital-Ice d.o.o., Poreč	7% p.a.	1,000	2,000
Podravka d.o.o., Belgrade	1M EURIBOR + 2.5%	2,746	5,494
Podravka-International kft, Budapest	7% p.a.	1,745	3,298
		304,015	**227,596**

The effective interest rate is 6.99 % p.a.

The maturity of long-term borrowings is as follows:

	2008	2007
	(in thousands of HRK)	
Between 1 and 2 years	86,161	61,993
Between 2 and 5 years	126,931	103,610
	213,092	**165,603**

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

BORROWINGS

	Effective interest rate			
	2008	**2007**	**2008**	**2007**
			(in thousands of HRK)	
KOTI Nekretnine d.o.o., Koprivnica	5%	5%	632	333
Poni trgovina d.o.o., Koprivnica	5%	-	431	-
			1,063	**333**

TRADE RECEIVABLES AND PAYABLES

	Short-term trade receivables		Short-term trade payables	
	2008	**2007**	**2008**	**2007**
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Belupo d.d., Koprivnica	46,672	23,231	435	439
Danica d.o.o., Koprivnica	36,221	49,788	64,793	58,603
Lero d.o.o., Rijeka	24,203	-	14,580	-
Poni trgovina d.o.o., Koprivnica	-	-	-	637
Ital-Ice d.o.o., Poreč	313	334	15,013	13,187
Podravka d.o.o., Ljubljana	29,463	17,351	9	219
Podravka d.o.o., Belgrade	31,512	22,516	8	4
Podravka d.o.o.e.l., Skopje	15,181	18,489	68	134
Podravka d.o.o., Sarajevo	61,104	54,910	-	3
Podravka-Int.Deutschland-„Konar“ GmbH	13,932	13,058	-	-
Podravka-International kft, Budapest	7,316	8,797	-	-
Podravka-International Pty Ltd, Sydney	4,669	5,970	-	2
Podravka-International s r.o., Bratislava	5,879	6,147	-	-
Podravka-Polska Sp.z o.o., Kostrzyn	2,708	2,755	315	416
Podravka d.o.o., Podgorica	10,051	6,398	-	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	4,838	7,041	470	111
Other companies	39	35	438	441
Total trade receivables and payables – Group entities	**294,101**	**236,820**	**96,129**	**74,196**

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

OTHER RECEIVABLES

Receivables from related parties in respect of profit distributions

	2008	2007
	(in thousands of HRK)	
Belupo d.d., Koprivnica	504	65,000
Podravka-Polska Sp.z o.o., Kostrzyn	7,465	8,944
	7,969	**73,944**

Other receivables from Group entities

	2008	2007
	(in thousands of HRK)	
Belupo d.d., Koprivnica	20,052	13,436
Danica d.o.o., Koprivnica	219	238
Ital-Ice d.o.o., Poreč	7	10
Podravka d.o.o., Belgrade	20	-
Podravka-International kft, Budapest	42	62
	20,340	**13,746**

GUARANTEES AND WARRANTIES

Guarantees and warranties to related companies

	2008	2007
	(in thousands of HRK)	
Belupo d.d., Koprivnica	173,633	86,964
Danica d.o.o., Koprivnica	85,335	102,838
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	63,994	85,316
Podravka-Polska Sp.z o.o., Kostrzyn	33,244	38,235
Podravka-International s r.o., Bratislava	10,698	9,596
Ital-Ice d.o.o., Poreč	2,564	5,128
Podravka d.o.o., Belgrade	1,830	6,958
Podravka d.o.o., Ljubljana	1,245	12,526
Podravka-International S.R.L., Bucarest	477	477
	373,020	**348,038**

NOTE 39 – CONTINGENCIES

	2008	2007
	(in thousands of HRK)	
Legal proceedings	1,884	1,838
Guarantees – external	12,874	53,041
Guarantees – Group entities	373,020	348,038
	387,778	**402,917**

With respect to other legal proceedings and guarantees given, no contingent liabilities have been recognised in the balance sheet as of 31 December 2008, as Management estimated that as at 31 December 2008 and 2007 no contingent liability will arise for the Company.

NOTE 40 – COMMITMENTS

In 2008, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 7,589 thousand (2007: HRK 68,242 thousand), which are not yet realised or recognised in the balance sheet.

The future payments receivable under operating leases for the usage of vehicles, forklift trucks, refrigerator show-cases and IT equipment are as follows:

	2008	2007
	(in thousands of HRK)	
Not later than 1 year	29,531	27,915
Later than 1 year and not later than 5 years	54,198	56,933
	83,729	**84,848**

NOTE 41 – EVENTS AFTER THE BALANCE SHEET DATE

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 42 – APPROVAL OF THE FINANCIAL STATEMENTS

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

Zdravko Šestak

President of the Management Board