PODRAVKA d.d. and Its Subsidiaries, Koprivnica

Consolidated Financial Statements

At 31 December 2007

Together with Independent Auditor's Report

CONTENTS

RESPONSIBLITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

Darko Marinac

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Zagreb, 31 March 2008

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

We have audited the accompanying consolidated financial statements of Podravka d.d ('the Company') and Its Subsidiaries ('the Group'), which comprise of the consolidated balance sheet as at 31 December 2007, and the related consolidated income statement, consolidated statements of changes in equity and of consolidated cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The consolidated financial statements of the Group for the year ended 31 December 2006 were audited by another auditor who has, in its report dated 29 March 2007, expressed an unqualified opinion on those financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT (continued)

Qualification

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

Opinion

In our opinion, except for the effect of the matter discussed in the preceding paragraph, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor

31 March 2008

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	Notes	2007	2006
Sales	5	3,431,826	3,467,504
Cost of goods sold	8	(2,015,956)	(2,116,279)
Gross profit		**1,415,870**	**1,351,225**
Investment revenue	6	22,623	14,755
Other gains, net	7	67,189	27,196
General and administrative expenses	9	(398,369)	(359,245)
Selling and distribution expenses	10	(550,955)	(500,581)
Marketing expenses	11	(462,993)	(405,411)
Other expenses	12	(1,108)	(1,731)
Profit from operations		**92,257**	**126,208**
Finance costs	15	(58,340)	(50,059)
Profit before tax		**33,917**	**76,149**
Income tax	17	(15,581)	(15,788)
Net profit		**18,336**	**60,361**
Earnings per share:	18		
- Basic		3.40	11.24
- Diluted		3.34	11.04

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2007

(in thousands of HRK)	Notes	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	20	1,669,321	1,633,454
Goodwill	21	29,137	28,357
Intangible assets	21	199,419	58,868
Financial assets available for sale	23	-	1,394
Deferred tax assets	17	35,491	24,137
Other financial assets	25	60,917	11,243
		1,994,285	**1,757,453**
Current assets			
Inventories	24	594,522	564,485
Trade and other receivables	26	1,153,886	1,241,505
Financial assets at fair value in income statement	27	6,163	3,046
Cash and cash equivalents	28	112,549	126,118
		1,867,120	1,935,154
Non-current assets held for sale	29	5,469	7,898
Total current assets		**1,872,589**	**1,943,052**
Total assets		**3,866,874**	**3,700,505**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Shareholders' equity			
Share capital	30	1,628,467	1,427,329
Reserves	31	138,641	148,503
Retained earnings	32	177,864	170,848
		1,944,972	**1,746,680**
Non-current liabilities			
Financial liabilities at fair value in income statement	33	354,000	372,158
Long-term debt	34	113,498	153,177
Provisions	35	25,412	22,007
		492,910	**547,342**
Current liabilities			
Trade and other payables	36	762,338	920,346
Short-term borrowings	34	649,216	456,860
Provisions	35	17,438	29,277
		1,428,992	**1,406,483**
Total liabilities		**1,921,902**	**1,953,825**
Total liabilities and shareholders' equity		**3,866,874**	**3,700,505**

The accompanying accounting policies and notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	**Notes**	**Share capital**	**Reserves**	**Retained earnings**	**Total**
Balance at 1 January 2006		**1,635,796**	**125,514**	**159,849**	**1,921,159**
Exchange differences (net gains recognised directly in equity)		-	2,828	-	2,828
Net profit for the year		-	-	60,361	60,361
Total recognised income for 2006		-	2,828	60,361	63,189
Purchase of treasury shares		(9,721)	-	-	(9,721)
Sale of treasury shares		9,649	-	-	9,649
Options exercised		14,210	-	(2,160)	12,050
Fair value of share options		16,271	-	-	16,271
Dividend approved		-	(19,921)	(7,120)	(27,041)
Transfer to other and legal reserves		-	40,082	(40,082)	-
Call option on Company shares		(238,876)	-	-	(238,876)
Balance at 31 December 2006	30, 31, 32	**1,427,329**	**148,503**	**170,848**	**1,746,680**
Restatement of opening balance		-	134	(2,513)	(2,379)
Exchange differences (net gains recognised directly in equity)		-	8,205	-	8,205
Net loss for the year		-	-	18,336	18,336
Total recognised income for 2007			8,205	18,336	26,541
Purchase of treasury shares		(57,526)	-	-	(57,526)
Options exercised		11,106	-	-	11,106
Fair value of share options		8,682	-	-	8,682
Dividend approved		-	(25,703)	(1,305)	(27,008)
Transfer to other and legal reserves		-	7,502	(7,502)	-
Expiry of options on Company shares		238,876	-	-	238,876
Balance at 31 December 2007	30, 31, 32	**1,628,467**	**138,641**	**177,864**	**1,944,972**

The accompanying accounting policies and noted are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	**2007**	**2006**
Net profit	**18,336**	**60,361**
Income tax	15,581	15,788
Depreciation	163,516	201,252
Gains on sale of non-current assets	(46,311)	(3,900)
Gain on sale of assets available for sale	(1,810)	(9,812)
Value adjustment of current assets	14,282	14,341
Disposals of tangible fixed assets	-	7,583
Value adjustment of non-current assets	989	(906)
Value adjustment of available-for-sale assets	(224)	-
Value adjustment of capital gains	478	15,388
Increase in provisions	3,405	10,306
Value adjustment of liabilities at fair value in income statement	(18,801)	-
Gains on sale of financial assets at fair value, financial assets available for sale and equity investment in a Group entity	-	(13,693)
Interest income	(16,810)	(8,338)
Interest expense	57,008	45,907
Write-off of given loans	3,593	134
Effect of changes in foreign exchange rates	5,006	(2,558)
Other items not affecting cash	(7,419)	(5,655)
Changes in working capital:		
(Increase) / decrease in inventories	(35,267)	3,310
Increase in trade receivables	(62,606)	(117,573)
Decrease in other current assets	143,147	7,951
Increase in trade payables	82,455	79,033
Increase / (decrease) in other liabilities	5,454	(5,239)
Net cash generated from operations	**324,002**	**293,680**

The accompanying accounting policies and noted are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	**2007**	**2006**
Net cash flows from operating activities		
Cash generated from operations	324,002	293,680
Income taxes paid	(35,021)	(15,661)
Interest paid	(55,705)	(50,465)
Net cash from operating activities	**233,276**	**227,554**
Net cash flows from investing activities		
Sale of equity interest	1,436	12,919
Payments for property, plant and equipment and intangible assets	(362,497)	(182,316)
Sale of tangible and intangible assets	73,757	6,143
Sale of available-for-sale assets	4,415	15,420
Long-term loans given and deposits	(56,000)	-
Repayment of long-term loans given and deposits	2,148	2,565
Purchase of trading securities	(3,010)	(9,105)
Sale of trading securities	-	35,525
Short-term loans given and deposits	-	(252,000)
Repayment of short-term loans given and deposits	2,000	-
Interest received	1,326	145
Net cash used in investing activities	**(336,425)**	**(370,704)**
Net cash flows from financing activities		
Purchase of treasury shares	(57,526)	(9,721)
Sale of treasury shares	24,888	22,583
Proceeds from long-term borrowings	40,429	10,330
Repayment of long-term borrowings	(177,151)	(333,573)
Proceeds from short-term borrowings	965,276	667,626
Repayment of short-term borrowings	(679,328)	(562,170)
Proceeds from bonds issued	-	375,000
Dividends paid	(27,008)	(27,041)
Net cash from financing activities	**89,580**	**143,034**
Net decrease in cash and cash equivalents	**(13,569)**	**(116)**
Cash and cash equivalents at beginning of year	126,118	126,234
Cash and cash equivalents at the end of year	112,549	126,118

NOTE 1 – GENERAL INFORMATION

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

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

As at 31 December 2006, the Company's shares were listed on the public joint stock company listing on the Zagreb Stock Exchange.

Corporate governance and management

General Assembly

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

President	Branko Vuljak

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

Supervisory Board

Supervisory Board members:

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

Management Board in 2007

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

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS

2.1. Standards and Interpretations effective in the current period

In the current year, the Company has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to IAS 1 *Presentation of Financial Statements*.

The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 36).

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 *Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS* 2; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*.

The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

2.2. Early adoption of Standards and Interpretations

The Group did not adopt any Standard or Interpretation at an earlier date.

2.3. Standards and Interpretations in issue not yet adopted

At the date of authorisation of these financial statements, the following Interpretations and Standards were in issue but not yet effective:

IAS 23 (Revised) *Borrowing Costs* (effective for accounting periods beginning on or after 1 January 2009);

IFRS 8 *Operating Segments* (effective for accounting periods beginning on or after 1 January 2009);

IFRIC 13 *Customer Loyalty Programmes* (effective for accounting periods beginning on or after 1 July 2008) ;

IFRIC 11 *IFRS 2: Group and Treasury Share Transactions* (effective 1 March 2007);

IFRIC 12 *Service Concession Arrangements* (effective 1 January 2008)*; and*

IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective 1 January 2008).

The directors anticipate that the adoption all of the above Interpretations and Standards will have no material impact on the financial statements of the Group.

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NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis, adjusted by revaluation of certain assets and liabilities in hyperinflationary circumstances, which prevailed until 1993, and except for financial instruments that are carried at fair value through profit or loss, in accordance with International Accounting Standards issued by the International Accounting Standards Board and Croatian law.

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

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

The Group prepared these consolidated financial statements in accordance with Croatian regulations and IFRS, and authorised them for issue on 31 March 2008.

3.3. Basis of consolidation

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

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets and liabilities acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. There were no mergers or acquisitons in 2007 and 2006.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Goodwill

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

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

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

3.5. Non-current assets held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date rather than through continuing use. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Company's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for a sale at a reasonable price; (d) the sale is expected to occur within one year and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn. 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 amount and fair value less costs to sell. Held for sale property, plant and equipment are not depreciated.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Revenue recognition

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

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

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

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

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

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

(b) Sales of products and goods – retail

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

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Revenue recognition (continued)

(f) Income from government grants

Income from government grants is measured at fair value when it is reasonable that the grant will be received, and that the Group will comply with all related conditions. Income from government grants is recognised in period when costs occured which are compensated from these grants, and are shown in income statement as part of other income.

3.7. Leases

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

Leases where the significant portion of risks and rewards of ownership are not retained by the Group are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

3.8. Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of the Group 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 Group’s functional and presentation currency.

(b) 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 2007, the official exchange rate for EUR 1 and USD 1 was HRK 7.3251 and HRK 4.9855, respectively (31 December 2006: HRK 7.34508 and HRK 5.57840, respectively).

3.9. Borrowings

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 39.

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.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

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.

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

3.11. 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 consolidated financial statements.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Taxation (continued)

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.

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:

	2007	2006
Buildings	10 to 50 years	10 to 50 years
Equipment	3 to 18 years	3 to 18 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.15).

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

3.15. Impairment of tangible and intangible assets

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16. Impairment of tangible and intangible assets (continued)

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

3.15. Inventories

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

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

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

Small inventory and tools are expensed when put into use.

3.16. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment. An impairment allowance for trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowancen is recognised in the income statement within line item 'selling and distribution costs'.

3.17. Cash and cash equivalents

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Share capital

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

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

3.19. 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.

(c) Regular retirement benefits

Benefits falling due more than 12 months after the balance sheet date are discounted to their present value.

(d) Long-term employee benefits

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Employee benefits (continued)

(e) Short-term employee benefits

The Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(e) Share-based compensation

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

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

3.21. Provisions

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

Provisions for restructuring costs are recognized when the Group has a detailed formal plan for the restructuring that has been communicated to parties concerned.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets

Investments are recognised and derecognised on a trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into as 'financial assets at fair value through profit or loss' (FTPL), 'investments held to maturity' (HTM), 'available-for-sale financial assets' (AFS) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

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 38.

Held-to-maturity investments

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

Available-for-sale financial assets (AFS)

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 38. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

Available-for-sale financial assets (AFS) (continued)

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

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

Derecognition of financial assets

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and

- the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policies.

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or

- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 38.

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

3.24. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

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

Impairment of non-current assets, including goodwill

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. The impairments reported in the consolidated income statement for 2007 amounted to 0 HRK (2006: HRK 0). The carrying amount of goodwill is HRK 29.1 million (2006: HRK 28.4 million) (see Note 21).

Availability of taxable profits against which the deferred tax assets could be recognised

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. The carrying amount of deferred tax assets was HRK 35.5 million (2006: HRK 24.1 million) (see Note 17).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for jubilee awards amounted to HRK 16,016 thousand and retirement bonuses amounted to HRK 7,094 thousand 31 December 2007 (2006: HRK 20,207 thousand in total) (see notes 35 and 37).

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS (continued)

Consequences of certain legal actions

There is 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 35).

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 Group subsequently remeasures financial liabilities at fair value. Any gain or loss arising from changes in the fair value is reported in the income statement.

The Group does not reclassify its financial liabilities designated at FVTPL during the period in which it holds them or delivers them.

Impairment allowance

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

The change in the estimate resulted in a decrease of the allowance in the amount of HRK 545 thousand.

NOTE 5 – SALES

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

Business segment information

Primary reporting format – Business Segments

At 31 December 2007, the Group has been organised on the international market in three business segments:

1. Production and distribution of foodstuffs and beverages
2. Production and distribution of pharmaceuticals
3. Services in respect of energy, maintenance and meals.

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

(in thousands of HRK)	**Foodstuffs and beverages**	**Pharmaceuticals**	**Services**	**Total Group**
Sales	**2,810,624**	**614,279**	**6,923**	**3,431,826**
Profit from operations	(23,712)	115,859	110	92,257
Finance costs	(43,950)	(14,390)	-	(58,340)
Profit before tax	**(67,662)**	**101,469**	**110**	**33,917**
Income tax expense	7,007	(22,588)	-	(15,581)
Profit for the year	**(60,655)**	**78,881**	**110**	**18,336**

The results of the segments for the year ended 31 December 2006 were as follows:

(in thousands of HRK)	**Foodstuffs and beverages**	**Pharmaceuticals**	**Services**	**Total Group**
Sales	**2,852,043**	**605,127**	**10,334**	**3,467,504**
Profit from operations	(13,952)	139,901	259	126,208
Finance costs	(35,675)	(14,384)	-	(50,059)
Profit before tax	**(49,627)**	**125,517**	**259**	**76,149**
Income tax expense	9,067	(24,855)	-	(15,788)
Profit for the year	**(40,560)**	**100,662**	**259**	**60,361**

NOTE 5 – SALES (continued)

Business segment information (continued)

Other items by segment, included in the income statement, are as follows:

	2007				2006			
(in thousands of HRK)	**Foodstuffs and beverages**	**Pharmaceuticals**	**Services**	**Total Group**	**Foodstuffs and beverages**	**Pharmaceuticals**	**Services**	**Total Group**
Depreciation	110,802	29,958	18	140,778	129,749	40,484	42	170,275
Amortisation	18,894	3,790	54	22,738	27,156	3,766	55	30,977
Impairment of trade receivables	5,079	(2,110)	-	2,969	4,742	(934)	-	3,808
Restructuring costs – termination benefits	34,249	4,298	-	38,547	31,074	241	120	31,435

The analysis of segment assets and liabilities at 31 December 2007 and of capital expenditure for the year then ended is provided below:

(in thousands of HRK)	**Foodstuffs and beverages**	**Pharmaceuticals**	**Services**	**Total Group**
Tangible assets	1,372,673	296,623	25	1,669,321
Intangible assets, excluding goodwill	171,493	27,809	117	199,419
Goodwill	29,137	-	-	29,137
Trade receivables	554,218	377,350	5	931,573
Other assets	889,668	147,738	18	1,037,424
Total assets	**3,017,189**	**849,520**	**165**	**3,866,874**
Liabilities	**1,732,657**	**188,877**	**368**	**1,921,902**
Capital expenditure	**263,418**	**24,098**	**3,837**	**291,353**

The analysis of segment assets and liabilities at 31 December 2006 and of capital expenditure for the year then ended is provided below:

(in thousands of HRK)	**Foodstuffs and beverages**	**Pharmaceuticals**	**Services**	**Total Group**
Tangible assets	1,321,895	311,516	43	1,633,454
Intangible assets, excluding goodwill	45,509	13,198	161	58,868
Goodwill	28,357	-	-	28,357
Trade receivables	502,366	375,653	-	878,019
Other assets	965,169	136,543	95	1,101,807
Total assets	**2,863,296**	**836,910**	**299**	**3,700,505**
Liabilities	**1,750,278**	**202,924**	**623**	**1,953,825**
Capital expenditure	**166,288**	**16,024**	**4**	**182,316**

NOTE 5 – SALES (continued)

Business segment information (continued)

Secondary reporting format – Geographical destination

Sales

	2007	2006
	(in thousands of HRK)	
Croatia	1,939,154	1,880,756
South East Europe	640,176	778,700
Central Europe	459,866	434,818
East Europe	166,165	151,280
West Europe, overseas countries and Far East	226,465	221,950
Total	**3,431,826**	**3,467,504**

Sales are presented by geographical destination of the customer.

Total assets

	2007	2006
	(in thousands of HRK)	
Croatia	3,319,962	3,152,405
South East Europe	183,086	212,409
Central Europe	331,183	307,258
East Europe	641	902
West Europe, overseas countries and Far East	32,002	27,531
Total	**3,866,874**	**3,700,505**

Total assets are presented by geographical area in which the assets are located.

Trade and other receivables

	2007	2006
	(in thousands of HRK)	
Croatia	911,475	979,498
South East Europe	109,084	141,222
Central Europe	113,400	103,627
East Europe	123	133
West Europe, overseas countries and Far East	19,804	17,025
Total	**1,153,886**	**1,241,505**

Trade and other receivables are presented by geographical area of the entities.

NOTE 5 – SALES (continued)

Business segment information (continued)

Trade and other payables

	2007	**2006**
	(in thousands of HRK)	
Croatia	649,183	781,580
South East Europe	33,124	54,906
Central Europe	75,818	80,233
East Europe	219	263
West Europe, overseas countries and Far East	3,994	3,364
Total	**762,338**	**920,346**

Trade and other receivables are presented by geographical area of the entities.

Capital expenditure

	2007	**2006**
	(in thousands of HRK)	
Croatia	285,757	179,674
South East Europe	1,025	1,444
Central Europe	4,498	256
East Europe	-	549
West Europe, overseas countries and Far East	73	393
Total	**291,353**	**182,316**

Capital expenditure is presented by geographical area in which the assets are located.

NOTE 6 – INVESTMENT REVENUE

	2007	2006
	(in thousands of HRK)	
Income from grants, subsidies and recourse	5,112	3,350
Interest on term deposits and trade debtors	14,587	8,123
Interest on loans	2,223	215
Other	701	3,067
	22,623	**14,755**

NOTE 7 – OTHER GAINS, NET

	2007	2006
Gains on sale of non-current assets	48,121	13,713
Gains on disposal of investments	(150)	5,378
Gains on disposal of financial assets available for sale	-	8,200
Gains on financial assets at fair value through profit or loss	-	115
Gains on value adjustment of liabilities at fair value through profit or loss	18,801	-
	66,772	**27,406**
Foreign exchange gains / (losses), net	417	(210)
	67,189	**27,196**

NOTE 8 – COST OF GOODS SOLD

	2007	2006
	(in thousands of HRK)	
Raw material and supplies	1,495,278	1,568,078
Staff costs	336,778	331,323
Depreciation	98,388	123,379
Energy	40,588	43,728
Maintenance	20,808	22,412
Other	24,116	27,359
	2,015,956	**2,116,279**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2007	2006
	(in thousands of HRK)	
Staff costs	244,332	237,083
Depreciation	26,545	37,801
Services	58,984	59,065
Bank services	10,658	8,965
Rental costs	9,270	7,577
Telecommunication costs	7,823	7,844
Reversal of provision – legal action	-	(48,057)
Other	40,757	48,967
	398,369	**359,245**

NOTE 10 – SELLING AND DISTRIBUTION EXPENSES

	2007	2006
	(in thousands of HRK)	
Staff costs	248,152	228,209
Rentals	60,719	45,871
Transport	65,086	55,585
Depreciation	35,238	36,657
Services	39,572	37,266
Energy	24,614	22,522
Maintenance	13,588	11,168
Other material	10,638	7,926
Telecommunications	9,350	9,826
Other	43,998	45,551
	550,955	**500,581**

NOTE 11 – MARKETING EXPENSES

	2007	2006
	(in thousands of HRK)	
Media expenses	149,086	89,430
Marketing for traders and consumers	118,777	129,216
Market survey and research	10,624	6,885
Other marketing expenses	48,145	51,756
Staff costs	67,963	61,529
Other	68,398	66,595
	462,993	**405,411**

NOTE 12 – OTHER EXPENSES

	2007	2006
	(in thousands of HRK)	
Interest expense on trade payables	931	1,597
Other interest and finance costs	177	134
	1,108	**1,731**

NOTE 13 – EXPENSES BY NATURE

	2007	2006
	(in thousands of HRK)	
Raw material and consumables used, and cost of goods sold	1,575,285	1,648,215
Staff costs	897,224	858,144
Advertisning and promotion	326,655	280,057
Services	158,364	166,182
Depreciation	163,516	201,252
Rental costs	71,477	57,072
Transport	49,455	40,837
Taxes and contributionsirrespective of operating result	29,679	28,329
Telecommunications	22,694	24,875
Entertainment	36,279	29,128
Legal actions	-	(48,057)
Other expenses	97,646	95,482
Total cost of goods sold, selling and distribution costs and administrative expenses	**3,428,274**	**3,381,516**

NOTE 14 – STAFF COSTS

	2007	2006
	(in thousands of HRK)	
Salaries	808,337	782,451
Share options	14,367	16,271
Termination benefits	38,547	31,435
Provisions for liabilities to employees	17,385	8,366
Transport	10,472	10,266
Other	8,116	9,355
	897,224	**858,144**

As at 31 December 2007, the number of staff employed by the Group was 6,754 (2006: 6,989).

In 2007, the Group accrued and paid retirement benefits in the amount of HRK 38,547 thousand for 346 employees (2006: HRK 31,345 thousand for 139 employees).

NOTE 15 – FINANCE COSTS

	2007	2006
	(in thousands of HRK)	
Interest expense from long-term borrowings	(10,763)	(18,719)
Interest expense from short-term borrowings	(26,541)	(10,820)
Interest expense from issued bonds	(19,604)	(18,630)
Financial expense from call option on Company shares	(100)	(8,399)
	(57,008)	(56,568)
Net foreign exchange (losses)/gains on borrowings	(1,332)	6,509
	(58,340)	**(50,059)**

NOTE 16 – NET FOREIGN EXCHANGE (LOSSES) / GAINS

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

	2007	2006
	(in thousands of HRK)	
Other gains/(losses) – net	410	(210)
Finance costs	(1,331)	6,509
	(921)	**6,299**

NOTE 17 – INCOME TAX

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 20% (2006: 20%) applicable to the Company's profit as follows:

	2007	2006
	(in thousands of HRK)	
Profit before taxation	33,917	76,149
Tax calculated at weighted average tax rates applicable to profits in the respective countries	6,832	15,382
Effect of non-taxable income	(22,926)	(29,354)
Effect of expenses not deductible for tax purposes	46,490	41,572
Effect of concessions (research and development, education and other allowances)	(7,981)	(10,513)
Effect of tax losses brought forward	5,553	14,128
Effect of utilised tax losses	(1,033)	(2,388)
Current tax	26,935	28,827
Deferred income tax expense / credit	(11,354)	(13,039)
Income tax expense recognised in profit or loss	15,581	15,788

Unused tax losses:	2007	2006
	(in thousands of HRK)	
Unused tax losses	132,333	104,984

Unused tax losses can be used until:

		(in thousands of HRK)
2007	-	6.112
2008	27.162	27.197
2009	750	750
2010	1.803	1.803
2011	69.094	69.122
2012	33.524	-

Deferred taxes are presented in the balance sheet as follows:

	2007	2006
	(in thousands of HRK)	
Deferred tax liabilities	642	63
Deferred tax assets	35,491	24,137

In accordance with Croatian tax regulations, by the end of 2007 the Group realised tax losses in the amount of HRK 132,333 thousand (2006: HRK 104,984 thousand), which may be utilised up to 2012 at the latest. Unutilised tax losses are not recognised as deferred tax assets in the balance sheet, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

NOTE 17 – INCOME TAX (continued)

Deferred tax assets/(liabilities) arise from the following:

2006	**Opening balance**	**Charged to income statement**	**Acquisitions / disposal**	**Exchange differences**	**Closing balance**
Temporary differences:					
Government grants	9,173	13,480	-	24	22,677
Financial lease of assets	1,925	(920)	-	97	1,102
Property, plant and equipment	-	-	358	-	358
	11,098	**12,560**	**358**	**121**	**24,137**

2007	**Opening balance**	**Charged to income statement**	**Acquisitions / disposal**	**Exchange differences**	**Closing balance**
Temporary differences:					
Government grants	22,677	10,703	-	1,380	34,760
Financial lease of assets	1,102	(530)	-	51	623
Property, plant and equipment	358	-	(248)	(2)	108
	24,137	**10,173**	**(248)**	**1,429**	**35,491**

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

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

	2007	2006
Net profit attributable to shareholders (in thousands of HRK)	18,336	60,361
Weighted average number of shares	5,388,817	5,371,612
Basic earnings per share (in HRK)	**3.40**	**11.24**

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 92,089 were not exercised (2006: 80,374 options):

	2007	2006
Net profit attributable to shareholders (in thousands of HRK)	18,336	60,361
Weighted average number of shares	5,486,906	5,467,986
Diluted earnings per share (in HRK)	**3.34**	**11.04**

NOTE 19 – DIVIDEND PER SHARE

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 36).

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
Cost				
At 1 January 2006	1,907,499	1,578,827	36,273	3,522,599
Effect of changes in the foreign exchange rate	2,181	2,183	26	4,390
Additions	545	3,751	152,810	157,106
Transfers	12,643	47,002	(59,645)	-
Disposals	(2,326)	(74,483)	(5)	(76,814)
Transfer to non-current assets held for sale	(4,377)	-	-	(4,377)
At 31 December 2006	**1,916,165**	**1,557,280**	**129,459**	**3,602,904**
Accumulated depreciation				
At 1 January 2006	780,184	1,087,016	-	1,867,200
Effect of changes in the foreign exchange rate	449	1,871	-	2,320
Additions	(1,094)	(1,379)	995	(1,478)
Disposals	(496)	(69,731)	-	(70,227)
Transfer to non-current assets held for sale	(1,772)	-	-	(1,772)
Impairment	3,132	-	-	3,132
Charge for the year	60,939	109,336	-	170,275
At 31 December 2006	**841,342**	**1,127,113**	**995**	**1,969,450**
Carrying amount at 31 December 2006	**1,074,823**	**430,167**	**128,464**	**1,633,454**
Cost				
At 1 January 2007	1,916,165	1,557,280	129,459	3,602,904
Effect of changes in the foreign exchange rate	5,343	3,757	629	9,729
Additions	946	5,496	193,090	199,532
Transfers	81,034	59,364	(140,398)	-
Disposals	(73,469)	(43,591)	-	(117,060)
At 31 December 2007	**1,930,019**	**1,582,306**	**182,780**	**3,695,105**
Accumulated depreciation				
At 1 January 2007	841,342	1,127,113	995	1,969,450
Effect of changes in the foreign exchange rate	1,136	3,114	-	4,250
Additions	836	1,803	-	2,639
Disposals	(48,941)	(42,392)	-	(91,333)
Charge for the year	59,988	80,790	-	140,778
At 31 December 2007	**854,361**	**1,170,428**	**995**	**2,025,784**
Carrying amount at 31 December 2007	**1,075,658**	**411,878**	**181,785**	**1,669,321**

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT (continued)

Group buildings and land worth HRK 740,817 thousand (2006: HRK 774,143 thousand) have been mortgaged against the Group borrowings.

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

	2007	**2006**
	(in thousands of HRK)	
Cost of capitalised finance leases	92,445	33,263
Accumulated depreciation	(26,813)	(20,895)
Net book value	**65,632**	**12,368**

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

NOTE 21 – INTANGIBLE ASSETS

(in thousands of HRK)	Goodwill	Software	Distribution right	Brand	Total
Cost					
At 1 January 2006	52,460	152,252	67,694	-	272,406
Effect of changes in the foreign exchange rate	-	662	-	-	662
Additions	-	11,385	-	15,500	26,885
Disposals	-	(5,225)	-	-	(5,225)
At 31 December 2006	**52,460**	**159,074**	**67,694**	**15,500**	**294,728**
Accumulated amortisation					
At 1 January 2006	25,364	115,188	40,617	-	181,169
Effect of changes in the foreign exchange rate	(1,261)	597	-	-	(664)
Disposals	-	(5,055)	-	-	(5,055)
Impairment	-	-	1,076	-	1,076
Charge for the year	-	17,439	13,538	-	30,977
At 31 December 2006	**24,103**	**128,169**	**55,231**	**-**	**207,503**
Carrying amount at 31 December 2006	**28,357**	**30,905**	**12,463**	**15,500**	**87,225**
Cost					
At 1 January 2007	52,460	159,078	67,694	15,500	294,732
Effect of changes in the foreign exchange rate	-	1,534	-	-	1,534
Additions	-	26,014	20,095	115,871	161,980
Disposals	-	(823)	-	-	(823)
At 31 December 2007	**52,460**	**185,803**	**87,789**	**131,371**	**457,423**
Accumulated amortisation					
At 1 January 2007	24,103	128,173	55,231	-	207,507
Effect of changes in the foreign exchange rate	(780)	1,144	-	-	364
Additions	-	106	-	-	106
Disposals	-	(772)	-	-	(772)
Impairment – decommissioning	-	-	(1,076)	-	(1,076)
Charge for the year	-	9,199	13,539	-	22,738
At 31 December 2007	**23,323**	**137,850**	**67,694**	**-**	**228,867**
Carrying amount at 31 December 2007	**29,137**	**47,953**	**20,095**	**131,371**	**228,556**

NOTE 22 – INVESTMENTS IN SUBSIDIARIES

Set out below is detailed information about the subsidiaries at 31 December 2007 and 2006:

Name of subsidiary	Country of incorporation	Proportion of ownership interest in %		Principal activity
		2007	2006	
Belupo d.d., Koprivnica	Croatia	100.00	100.00	Production and distribution of pharmaceuticals
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	Services
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	Meet processing and production
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	Trade
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	Ice cream manufacture
Sana d.o.o., Hoče	Slovenia	100.00	100.00	Wafers
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100.00	100.00	Sale and distribution
Podravka d.o.o., Podgorica	Monte Negro	100.00	100.00	Sale and distribution
Podravka-Int. Deutschland –“Konar” GmbH	Germany	100.00	100.00	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	100.00	Sale and distribution
Podravka-International Kft, Budapest	Hungary	100.00	100.00	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	100.00	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	100.00	100.00	Sale and distribution
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	Seasonings manufacture and sale
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	Sale and distribution
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	Rice production and sale
Podravka-International s.r.o., Bratislava	Slovakia	75.00	75.00	Sale and distribution
Podravka-International Inc. Wilmington	USA	100.00	100.00	Sale and distribution

NOTE 23 – FINANCIAL ASSETS AVAILABLE FOR SALE

	2007	2006
	(in thousands of HRK)	
Investment in:		
ZD Olšava	-	1,394
	-	**1,394**

In October 2006, the investment in RTL was sold for an amount of HRK 29,237 thousand. Gains on sale of the investment in the amount of HRK 8,200 thousand is recorded within Other gains/(losses) – net (Note 7).

NOTE 24 – INVENTORIES

	2007	2006
	(in thousands of HRK)	
Raw materials and supplies	216,292	180,093
Work in progress	55,515	56,539
Finished goods	186,059	190,599
Trade goods	136,656	137,254
	594,522	**564,485**

In 2007, impairment losses were charged to certain inventories in the amount of HRK 5,232 thusand (2006: HRK 2,475 thousand credited), relating to the assessment of damaged and expired inventories. This is included in the income statement in line item ‘cost of goods sold’ (note 8).

NOTE 25 – OTHER FINANCIAL ASSETS

	2007	2006
	(in thousands of HRK)	
Loans	54,544	2,867
Other receivables and deposits	6,373	8,376
	60,917	**11,243**

Fair value of long term receivables is similar to net book value as the contracted interest rates are close to market rates.

NOTE 26 – TRADE AND OTHER RECEIVABLES

	2007	2006
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,040,275	1,014,533
Less: Provisions for impairment	(108,701)	(136,514)
Net trade receivables	931,574	878,019
Advances to suppliers	4,514	6,948
Short-term deposit	108,910	250,000
Loans given	625	2,038
Bills of exchange received	31,794	34,230
Other receivables	76,470	70,270
Total current receivables	**1,153,886**	**1,241,505**

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

	2007	2006
	(in thousands of HRK)	
At 1 January	136,514	163,077
Increase	9,051	16,779
Collected	(6,082)	(12,971)
Written off as uncollectible	(30,782)	(30,371)
At 31 December	**108,701**	**136,514**

In 2007, 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 expenses’ (note 10).

Ageing analysis of trade receivables past due but not impaired

	2007	2006
	(in thousands of HRK)	
0-90 days	263,883	233,875
91-180 days	92,916	76,930
181-360 days	17,085	15,076

NOTE 26– TRADE AND OTHER RECEIVABLES (continued)

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

Other receivables at 31 December were as follows:

	2007	2006
	(in thousands of HRK)	
Prepaid income taxes	1,927	1,608
Receivables in respect of interest accrued on given loans	876	15
Net VAT receivable	57,681	46,580
Receivables from employees	3,680	2,884
Prepaid expenses	3,115	5,106
Amounts due from settlement arrangements	1,371	1,400
Other receivables – gross	9,035	13,939
Impairment allowance for other receivables	(1,215)	(1,262)
	76,470	**70,270**

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

NOTE 27 – FINANCIAL ASSETS AT FAIR VALUE IN INCOME STATEMENT

	2007	2006
	(in thousands of HRK)	
Investments in:		
Investment funds	6,040	2,933
Other	123	113
	6,163	**3,046**

Movements during the year are as follows:

	2007	2006
	(in thousands of HRK)	
Opening net book value	3,046	113
Additions	3,010	9,105
Disposals	-	(6,172)
Effect of remeasurement at fair value	107	-
Closing net book value	**6,163**	**3,046**

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 10,000 thousand.

In 2006, the share in the investment fund PBZ Custody was sold for an amount HRK 6,287 thousand. The difference between the selling price and the book value in the amount of HRK 115 thousand is recorded within Other gains – net (Note 7).

NOTE 28 – CASH AND CASH EQUIVALENTS

	2007	2006
	(in thousands of HRK)	
Cash with banks	109,895	124,359
Cash in hand	413	396
Cheques received	11	21
Deposits and securities	2,230	1,342
	112,549	**126,118**

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

	2007	2006
	(in thousands of HRK)	
Property at Baruna Trenka 2, Zagreb	-	2,605
Property at the subsidiary Podravka Kft, Budapest	5,469	5,293
	5,469	**7,898**

The decision to sell the property in Zagreb was made in December 2006.

In January 2006, the land and buildings were sold for EUR 2,075 thousand or HRK 15,420 thousand. The difference between the selling price and the carrying amount of HRK 9,810 thousand was included within Other gains, net (Note 7).

NOTE 30 – SHARE CAPITAL

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)		*(in thousands of HRK)*		
At 1 January 2006	5,337,847	1,626,001	29,368	(19,573)	1,635,796
Purchase of treasury shares	(25,000)	-		(9,721)	(9,721)
Sale of treasury shares	25,133	-	3,661	5,988	9,649
Employee share options /i/:					
- options exercised	62,334	-	(2,385)	16,595	14,210
- fair value of options	-	-	16,271	-	16,271
Call option on Company shares /ii/	-	-	(238,876)	-	(238,876)
At 31 December 2006	**5,400,314**	**1,626,001**	**(191,961)**	**(6,711)**	**1,427,329**
At 1 January 2007	5,400,314	1,626,001	(191,961)	(6,711)	1,427,329
Purchase of treasury shares	(109,402)	-	-	(57,526)	(57,526)
Sale of treasury shares	-	-	-	-	-
Employee share options /i/:	52,918	-	(13,782)	24,888	11,106
- options exercised	-	-	8,682	-	8,682
- fair value of options	-	-	238,876	-	238,876
At 31 December 2007	**5,343,830**	**1,626,001**	**41,815**	**(39,349)**	**1,628,467**

As at 31 December 2007, the Company's share capital amounted to HRK 1,626,001 thousand distributed among 5,420,003 shares (2006: HRK 1,626,001 thousand and 5,420,003 shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid.

Call option on Company shares

The Company's General Assembly reached a decision on the acquisition of own shares based on certain conditions. During 2006, the Group entered into a share option agreement with an unrelated third party ("Put option holder"). According to the agreement, the Group has the option ("Call option") to purchase all of the Company's own shares owned by the Put option holder at any time from 20 May 2006 through to 20 April 2007. As at 31 December 2006, the number of Company shares acquired by the Put option holder was 576,880. The exercise price is equal to the average price paid for the shares by the Put option holder, increased by 4.5% annual interest component and a 1% option fee.

Further, the Put option holder can force the Group to purchase all acquired shares in the period from 20 April 2007 to 20 May 2007. The Put option has expired as of 20 May 2007.

The Employee Share Option Plan is described in detail in Note 39 to the financial statements.

NOTE 31 – RESERVES

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Translation reserve**	**Reserves for treasury shares**	**Total**
At 1 January 2006	43,585	51,410	5,872	24,647	125,514
Transfers	-	19,921	-	(19,921)	-
Dividends declared /i/	-	(19,921)	-	-	(19,921)
Transfer to reserves /ii/	702	39,380	-	-	40,082
Exchange differences	-	-	2,828	-	2,828
At 31 December 2006	**44,287**	**90,790**	**8,700**	**4,726**	**148,503**
At 1 January 2007	44,287	90,790	8,700	4,726	148,503
Reclassification of opening balance	133	-	-	-	133
Dividends declared /i/	-	(25,703)	-	-	(25,703)
Transfer to reserves /ii/	297	5,219		1,986	7,502
Exchange differences	-	-	8,206	-	8,206
At 31December 2007	**44,717**	**70,306**	**16,906**	**6,712**	**138,641**

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.

/i/ According to the decision of the General Assembly of the Company in July 2007 the Company's profit for 2006 was allocated to: legal reserves in the amount of HRK 296 thousand, to treasury share reserve HRK 1,986 thousand, and to other reserves in the amount of HRK 182 thousand.

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

NOTE 32 – RETAINED EARNINGS

	2007	**2006**
	(in thousands of HRK)	
At 1 January	170,848	159,849
Restatement of opening balance	(2,512)	-
Transfer to legal and other reserves	(7,502)	(40,082)
Dividends paid	(1,305)	(7,120)
Exercised options	-	(2,159)
Net profit for the period	18,336	60,361
At 31 December	**177,864**	**170,848**

NOTE 33 – FINANCIAL LIABILITIES AT FAIR VALUE IN INCOME STATEMENT

	2007	2006
	(in thousands of HRK)	
Issued bonds	354,000	372,158
	354,000	**372,158**

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

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

	2007			2006		
	HRK	EUR	Other	HRK	EUR	Other
	%	%	%	%	%	%
Bonds issued	5.32	-	-	5.32	5.00	-

NOTE 34 – LONG-TERM DEBT

	2007	2006
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	67,313	125,051
Banks in foreign countries	16,954	25,400
Finance lease	29,231	2,726
	113,498	**153,177**
Current borrowings		
Banks in Croatia	422,059	345,744
Banks in foreign countries	223,715	104,644
Finance lease	3,008	4,883
Other	434	1,589
	649,216	**456,860**
Total borrowings	**762,714**	**610,037**

Bank borrowings in the amount of HRK 155,407 thousand (2006: HRK 315,784 thousand) are secured by mortgages over the Group land and buildings (Note 20).

NOTE 34 – LONG-TERM DEBT (continued)

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2007	2006	2007	2006	2007	2006
			(in thousands of HRK)			
Up to 1 year	5,308	5,320	2,378	437	2,930	4,883
Between 1 and 5 years	14,294	2,932	9,833	206	4,461	2,726
After 5 years	33,199	-	8,459		24,740	-
Less: future finance charges	**(20.670)**	**(643)**	**20,670**	**643**	**32,131**	**7,609**
Present value of minimum lease payments	**32.131**	**7,609**			**32,131**	**7,609**
Included in the financial statements within:						
Current borrowings					2,930	4,883
Non-current borrowings					29,201	2,726
					32,131	**7,609**

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

	2007	2006
	(in thousands of HRK)	
6 months or less	351,343	479,858
6 – 12 months	297,795	52,356
1 – 5 years	92,156	60,291
Over 5 years	21,420	17,532
	762,714	**610,037**

If the interest rate on borrowings at variable rates increases by 8.41 % on average, the liability in respect of interest would increase by HRK 2,737 thousand.

NOTE 34 – LONG-TERM DEBT (continued)

The maturity of non-current borrowings is as follows:

	2007	2006
	(in thousands of HRK)	
Between 1 and 2 years	39,609	73,025
Between 2 and 5 years	52,469	62,620
Over 5 years	21,420	17,532
	113,498	**153,177**

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

	2007			2006		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	4.04	5.53	-	4.00	5.01	-
Banks in foreign countries	-	5.72	-	-	5.13	4.84
Finance lease	-	7.86	-	-	7.15	-
Other	-	-	8.53	-	-	-
Current borrowings						
Banks	4.85	6.16	4.63	4.57	4.22	4.75
Other	4.72	-	-	4.50	-	-

During 2007, long-term borrowings were repaid in accordance with the 2007 repayment schedule, and some, such as the loan from Bank Austria d.d., Vienna, Krones and Privredna Banka Zagreb d.d., were fully repaid. In late 2007, a financial lease agreement was concluded with Raiffeisen leasing in respect of property with the gross amount of EUR 6,798 thousand, for a term of 15 years and with interest charged at 6-month EURIBOR + 3 %. In 2007, a long-term loan agreement for fixed asset purposes was concluded with Raiffeisen Krekova Banka, Maribor in the amount of EUR 1,370 thousand for Danica d.o.o., of which EUR 920 thousand were utilised. The interest rate on the loan is 3-month EURIBOR +1.4 % annually, and the loan is repayable in 5 years.

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

	Carrying amounts		Fair values	
	2007	**2006**	**2007**	**2006**
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Banks in Croatia	67,313	125,051	63,762	125,051
Banks in foreign countries	16,954	25,400	16,954	25,400
Finance lease	29,231	2,726	29,201	2,835
	113,498	**153,177**	**109,917**	**153,286**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.50% (2006: 5.35%).

NOTE 34 – LONG-TERM DEBT (continued)

The carrying amounts of short-term borrowings approximate their fair values.

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

	2007	**2006**
	(in thousands of HRK)	
HRK	375,532	265,632
EUR	327,813	254,911
Other currencies	59,369	89,494
	762,714	**610,037**

Most of the borrowings are HRK denominated. Therefore, the effect of changes in the foreign exchange rates would not have a singificant impact on the amount of borrowings.

The Company has the following undrawn borrowing facilities:

	2007	**2006**
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	107,575	130,663
	107,575	**130,663**

The stated borrowing facilities comprise current borrowings granted on a revolving basis for the purpose of financing temporary requirements, and they are repayable from cash inflows.

NOTE 35 – PROVISIONS

(in thousands of HRK)	**Jubilee awards**	**Unused vacation**	**Retire-ment benefit**	**Termina-tion benefits and bonuses**	**Legal procee-dings**	**Total**
Analysis of total provisions as at 31 December 2006:						
Non-current	17,424	-	258	-	4,325	22,007
Current	2,783	-	-	26,494	-	29,277
At 1 January 2007	**20,207**	**-**	**258**	**26,494**	**4,325**	**51,284**
Expense/(income) in the income statement:						
Increase / (decrease) of provisions	(1,012)	11,452	7,094	3,700	860	22,094
Utilised during the year	(3,179)	-	(258)	(26,494)	(597)	(30,528)
At 31 December 2007	**16,016**	**11,452**	**7,094**	**3,700**	**4,588**	**42,850**
Analysis of total provisions as at 31 December 2007:						
Non-current	13,909	-	7,094	-	4,409	25,412
Current	2,107	11,452	-	3,700	179	17,438
	16,016	**11,452**	**7,094**	**3,700**	**4,588**	**42,850**

Employee benefits

This provision comprises estimated employee benefits relating to unused vacation days and jubilee awards, as defined by the collective bargaining agreement, and bonuses to executive directors. The non-current provision relates to the estimated acquired rights to jubilee awards that will be paid after 2007.

The current amount of employee benefits includes HRK 11,452 thousand in respect of unused vacation days, HRK 1,820 thousand in respect of annual awards, HRK 2,107 thousand in respect of jubilees that will be paid in 2008 and HRK 1,880 termination benefits for Danica d.o.o.

Termination benefits

Based on adopted restructuring plans, as a result of operating requirements the Group reached a redundancy agreement with 93 employees in December 2006, ensuring payment of a stimulating termination benefit, which was paid in January 2007.

During 2007, redundancy agreements with additional 336 Group employees were reached that include stimulating termination benefits and 10 employees whose employment was terminated on personal grounds.

Legal proceedings

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

Based on the expert opinion of legal counsel, the Group's Management believes that the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2007.

NOTE 36 – TRADE AND OTHER PAYABLES

	2007	2006
	(in thousands of HRK)	
Trade payables	615,829	533,374
Liabilities in respect of call options on Company shares	-	247,275
Other liabilities	146,509	139,697
	762,338	**920,346**

At 31 December 2007, the carrying amounts of trade and other payables approximate their fair values.

Other payables include the following:

	2007	2006
	(in thousands of HRK)	
Salaries and other payments to employees	66,675	62,663
Dividends payable	2,087	2,213
Accrued interest not yet due on bonds and borrowings	18,340	17,037
Package waste disposal fee payable	5,533	7,406
Net VAT payable	1,308	1,180
Income taxes, contributions and other duties payable	7,721	15,524
Other	44,845	33,674
Liabilities in respect of call options on Company shares	-	247,275
	146,509	**386,972**

NOTE 37 – RETIREMENT BENEFIT PLAN

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

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

NOTE 37 – RETIREMENT BENEFIT PLAN (continued)

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

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 Decembeer 2007 by the actuaries of the firm Aktuarijat Sanjković d.o.o. In 2007, the Group made a provision of HRK 16,016 thousand for jubilee awards and HRK 7,094 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 2007
Discount rate	5.4%
Fluctuation rate - 2007	3.2 – 6.8 %
Average expected remaining working lives (in years)	24

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

	2007
	(in thousands of HRK)
Current service cost	1,205
Interest expense	1,121
Net actuarial gains for the year	3,692
Benefits paid	(2,436)
Other actuarial changes	(937)
	2,645

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

	2007	**2006**
	(in thousands of HRK)	
Present value of jubilee awards	16,016	20,207
Present value of retirement benefit	7,094	258
Obligation reported in the balance sheet	**23,110**	**20,465**

NOTE 37 – RETIREMENT BENEFIT PLAN (continued)

Of which by maturity:

	2007	**2006**
	(in thousands of HRK)	
Short-term	2,107	2,783
Long-term	21,003	17,682
	23,110	**20,465**

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

	2007
	(in thousands of HRK)
At 1 January	20,465
Current service cost	1,205
Interest expense	1,121
Actuarial gains and losses	3,692
Benefits paid	(2,436)
Other actuarial changes	(937)
At 31 December	**23,110**

NOTE 38 – FINANCIAL INSTRUMENTS

38.1. 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:

	2007	2006
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	1,116,714	982,195
Cash and cash equivalents	(112,549)	(126,118)
Net debt	1,004,165	856,077
Equity	1,944,972	1,746,680
Net debt to equity ratio	51.63%	49.01%

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

38.2. 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.

38.3. Categories of financial instruments

	2007	2006
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,295,558	1,344,636
Held-to-maturity investments – bills of exchange	31,794	34,230
Financial assets at fair value through profit or loss	11,632	10,944
Financial liabilities		
Finance lease obligations	32,239	7,609
Financial liabilities at fair value	354,000	372,158
Amortisation charge (borrowings, trade and other payables)	1,535,663	1,574,058

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.4. Financial risk management objectives

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

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

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

38.5. 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 61 % to 64 % of the products sold at Podravka as a food manufacturer in the sales, which clearly demonstrates the importance of managing input material prices.

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

Sales function based risk

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

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.6. Foreign exchange risk management

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

	Liabilities		Assets	
	2007	2006	2007	2006
	(in thousands of HRK)		(in thousands of HRK)	
European Union (EUR)	470,443	369,528	88,821	93,948
USA (USD)	23,672	23,323	8,146	12,128
Other currencies	151,103	179,285	217,497	219,700

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 0.06% increase and decrease in Croatian kuna against the relevant foreign currencies (2006: 1.36 %). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna changes for above mentioned percentages against the relevant currency. In a case of oposite proportional change of Croatian kuna against the relevant currency, there would be an equal and opposite impact on the profit and other equity.

	EUR impact		USD impact	
	2007	2006	2007	2006
	(in thousands of HRK)		(in thousands of HRK)	
Profit	1,309	-	-	-
Loss	-	2,061	356	619

	Impact of other currencies	
	2007	2006
	(in thousands of HRK)	
Profit	-	-
Loss	1,159	708

The exposure to the fluctuations in exchange rates by 0.06 % is mainly attributable to the borrowings, trade payables and receivables denominated in Euro (EUR) and US dollar (USD).

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.6. Interest rate risk management

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

Interest rate sensitivity analysis

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

If interest rates had changed for 50 basis points and all other variables were held constant, there would be following changes in interest expenses of the Group: for the year ended 31 December 2007 it would amount to HRK 2,737 thousand (2006: change would amount to HRK 1,799 thousand).

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

38.7. Other price risks

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

38.8. Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.9. Credit risk management

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

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

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

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

The 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.

38.10. Liquidity risk management

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

Liquidity and interest rate tables

The following tables detail the Company’s remaining contractual maturity for its financial liabilities.

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.10. Liquidity risk management (continued)

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)*	
2007							
Non-interest bearing	-	553,457	185,023	26,340	1,918	38,450	805,188
Financial liabilities at fair value	-	-	-	-	354,000	-	354,000
Interest bearing	5.20	1,123	285,739	362,276	92,156	21,420	762,714
		554,580	470,762	388,616	448,074	59,870	1,921,902
2006							
Non-interest bearing	-	481,202	176,067	289,729	-	24,632	971,630
Financial liabilities at fair value	-	-	-	-	372,158	-	372,158
Interest bearing	4.85	44,351	88,702	399,161	60,291	17,532	610,037
		525,553	264,769	688,890	432,449	46,164	1,953,825

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 437,411 thousand for the year 2007 (2006: HRK 367,411 million) and amounts due to employees in the amount of HRK 66,675 thousand (2006: HRK 62,663 thousand).

The non-interest bearing liabilities of the Group due in a period of over five years include, among others, long-term provisions in the amount of HRK 25,412 thousand in 2007 (2006: HRK 22,007 thousand).

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

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.10. Liquidity risk management (continued)

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

The tables have been drawn up based on the undiscounted cash flows of financial 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)*	
2007							
Non-interest bearing		637,349	232,911	182,470	564	-	1,053,294
Interest bearing	3.89%	113,566	111,170	10,180	48,806	1,968	285,690
		750,915	344,081	192,650	49,370	1,968	1,338,984
2006							
Non-interest bearing		613,179	276,073	107,043	1,622	-	997,917
Interest bearing	3.44%	126,345	477	252,118	11,180	1,773	391,893
		739,524	276,550	359,161	12,802	1,773	1,389,810

38.11. 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 39 – 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 of Podravka d.d., Belupo d.d. and Danica d.o.o. in accordance with the applicable Contracts applicable for the periods from 2000 onwards. 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 (employees of Belupo were entitled to a purchase price of 60% of the average price untill 2005). The vesting period normally starts at the beginning of the business year. Options are acquired separately for each business year. The vesting period is one year. The exercise period is from 3 to 5 years after the end of the year when they were granted. Based on historical practice, upon termination of employment the options vest immediately and can be exercised 6 to 12 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:

2007

Option series	**Number of options**	**Grant date**	**Expiry date**	**Exercise price**	**Fair value in the grant year**	**Fair value at 31/12/2007**
Opening balance	96,374					
Series 4	20,000	2003	2008	184.36	171.00	510.00
Series 4	8,000	2003	2008	110.62	171.00	510.00
Series 5	47,374	2004	2009	198.04	239.00	510.00
Series 5	8,000	2004	2009	118.82	239.00	510.00
Series 6	13,000	2005	2010	296.69	318.00	510.00
Options granted during 2007						
Series 7	54,633		2012	473.72	510.00	510.00

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

Inputs into the model

	Option series									
	Series 2	**Series 3**	**Series 4**	**Series 4**	**Series 5**	**Series 5**	**Series 6**	**Series 7.1.**	**Series 7.2.**	**Series 7.3.**
Grant date share price	153.00	206.00	171.00	171.00	239.00	239.00	318.00	510.00	510.00	510.00
Exercise price	153.61	200.77	184.36	110.62	198.04	118.82	296.69	296.69	399.69	535.25
Expected volatility										
Option life	5	5	5	5	5	5	5	5	5	5

NOTE 39 – SHARE BASED PAYMENTS (continued)

Employee share options (continued)

Overview of option balances and exercised options

	2007			2006		
	Number of options	**Weighted average exercise price**	**Weighted average price at exercise date**	**Number of options**	**Weighted average exercise price**	**Weighted average price at exercise date**
Balance at beginning of year	96,374	210.79	-	158,708	202.79	-
Granted during the year	54,633	473.72	-	-	-	-
			-	-	-	-
Forfeited during the year	-	-	-	-	-	-
Exercised during the year	52,918	209.88	545.48	62,334	193.32	402.83
Bonuses	-	-	-	-	-	-
Total exercised during the year	52,918	209.88	545.48	62,334	193.32	402.83
Expired/unused during the year	-	-	-	-	-	-
Balance at end of year	**98,089**	**341.90**		**96,374**	**210.79**	**-**

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

Options exercised during 2007

Option series	Number exercised	Exercise date	Price at exercise date
Series 4	17,000	2007	569.93
Series 4 – Transferred	1,460	2007	485.02
Series 5	24,458	2007	507.46
Series 6	1,250	2007	605.72
Series 7	8,750	2007	605.72
Total:	**52,918**	**2007**	**545.48**

Balance at the end of 2007, by series

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

NOTE 39 – SHARE BASED PAYMENTS (continued)

Employee share options (continued)

As at 31 December 2007, 98,089 options became vested (2006: 96,374 options). In 2007, 40,456 options (2006: 28,000 options), which were exercisable, were not exercised. Options exercised in 2007 resulted in 52,918 options (2006: 62,334 options), being issued at an average price of HRK 209.88 (2006: HRK 193.32). The related weighted average market price at the time of exercise was HRK 545.48 (2006: HRK 402.83).

NOTE 40 – RELATED PARTY TRANSACTIONS

	2007	2006
EXPENSES	*(in thousands of HRK)*	
Remuneration to the Management Board members and executives:		
Salaries	57,069	53,961
Share options through income statement	14,367	16,271
Share options in equity	-	7,629
	71,436	**77,861**

NOTE 41 – CONTINGENCIES

	2007	2006
	(in thousands of HRK)	
Legal proceedings	6,005	6,837
Contracted with suppliers of tangible fixed assets not yet delivered	77,636	67,742
Guarantees given	53,041	21,646
	136,682	**96,225**

With respect to other legal proceedings and guarantees granted, contingent liabilities have not been recognised in the balance sheet as at 31 December, as Management estimated that as at 31 December 2007 and 2006 no contingent liability will arise for the Group.

NOTE 42 – COMMITMENTS

In 2007, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 77,636 thousand (2006: HRK 67,742 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:

	2007	**2006**
	(in thousands of HRK)	
Not later than 1 year	33,451	27,049
Later than 1 year and not later than 5 years	64,449	31,985
	97,900	**59,034**

NOTE 43 – APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorized for issue on 31 March 2008.

Signed on behalf of the Management Board:

Darko Marinac

President of the Management Board