PODRAVKA d.d., Koprivnica

Unconsolidated financial Statements

At 31 December 2007

Together with Independent Auditor's Report

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RESPONSIBLITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

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

The unconsolidated financial statements of the Company 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 Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Qualification

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

Opinion

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

Emphasis of matter

Without further qualifying our opinon, we draw attention to the fact that the Company has prepared these unconsolidated financial statements under the Croatian laws and regulations and that the investments in subsidiary and associated undertakins have been presented in these financial statements at cost. In addition, the Company has prepared separate consolidated financial statements for the Group, dated 31 March 2008. For a better understanding of the Group as a whole, the consolidated financial statements should be read in conjunction with these financial statements.

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor

31 March 2008

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	**Notes**	**2007**	**2006**
Sales	5	2,198,859	1,596,658
Cost of goods sold	8	(1,490,225)	(976,919)
Gross profit		**708,634**	**619,739**
Investment revenue	6	102,577	88,691
Other gains, net	7	83,479	27,836
General and administrative expenses	9	(303,784)	(261,826)
Selling and distribution costs	10	(309,752)	(258,092)
Marketing expenses	11	(229,738)	(168,446)
Other expenses	12	(1,264)	(2,059)
Profit from operations		**50,152**	**45,843**
Finance costs	15	(46,524)	(39,914)
Profit before tax		**3,628**	**5,929**
Income tax	17	-	-
Net profit		**3,628**	**5,929**
Earnings per share:	18		
- Basic		0.67	1.10
- Diluted		0.66	1.09

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

BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	Notes	2007	2006
ASSETS			
Non-current assets			
Property, plant and equipment	20	1,079,784	1,017,096
Intangible assets	21	164,409	36,992
Investments in subsidiaries	22	441,679	421,744
Other financial assets	23	226,428	246,267
		1,912,300	**1,722,099**
Current assets			
Inventories	25	277,730	246,843
Trade and other receivables	26	878,251	779,971
Financial assets at fair value through profit or loss	27	6,163	3,046
Cash and cash equivalents	28	54,270	80,675
		1,216,414	1,110,535
Non-current assets held for sale	29	-	2,605
Total current assets		**1,216,414**	**1,113,140**
Total assets		**3,128,714**	**2,835,239**
LIABILITIES			
Shareholders' equity			
Share capital	30	1,628,467	1,421,644
Reserves	31	28,744	51,982
Retained earnings	32	3,628	3,770
		1,660,839	**1,477,396**
Non-current liabilities			
Financial liabilities at fair value through profit or loss	33	354,000	372,158
Long-term debt	34	76,197	91,779
Provisions	35	18,033	16,416
		448,230	**480,353**
Current liabilities			
Trade and other payables	36	511,352	584,716
Short-term borrowings	34	498,416	275,368
Provisions	35	9,877	17,406
		1,019,645	**877,490**
Total liabilities		**1,467,875**	**1,357,843**
Total liabilities and shareholders' equity		**3,128,714**	**2,835,239**

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

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	**Note**	**Share capital**	**Reserves**	**Retained earnings**	**Total**
Balance at 1 January 2006		**1,632,544**	**70,581**	**8,442**	**1,711,567**
Net profit for the year		-	-	5,929	5,929
Total recognised income for 2006		-	-	5,929	5,929
Purchase of treasury shares		(9,721)	-	-	(9,721)
Sale of treasury shares		9,649	-	-	9,649
Options exercised		14,209	-	(2,159)	12,050
Fair value of share options		13,839	-	-	13,839
Dividend approved		-	(19,921)	(7,120)	(27,041)
Transfer to other and legal reserves		-	1,322	(1,322)	-
Call option on Company shares		(238,876)	-	-	(238,876)
Balance at 31 December 2006	30, 31, 32	**1,421,644**	**51,982**	**3,770**	**1,477,396**
Net profit for the year				3,628	3,628
Total recognised income for 2007					
Purchase of treasury shares		(57,526)	-	-	(57,526)
Options exercised		11,106	-	-	11,106
Fair value of share options		14,367	-	-	14,367
Dividend approved		-	(25,703)	(1,305)	(27,008)
Transfer to other and legal reserves		-	2,465	(2,465)	-
Expiry of options on Company shares		238,876	-	-	238,876
Balance at 31 December 2007	30, 31, 32	**1,628,467**	**28,744**	**3,628**	**1,660,839**

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

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	**2007**	**2006**
Net profit	**3,628**	**5,929**
Depreciation	99,076	117,937
Gains on sale of available-for sale assets and fixed assets	(44,931)	(9,908)
Value adjustment of current assets	1,090	3,009
Value adjustment of non-current assets	(1,076)	1,076
Disposals of tangible fixed assets	-	3,244
Value adjustment of investment	(20,042)	(9,905)
Value adjustment of capital gains	585	12,955
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	-	(10,507)
Interest income	(29,017)	(22,127)
Interest expense	46,431	43,732
Effect of changes in foreign exchange rates	887	(4,149)
Other items not affecting cash	(110)	567
Changes in working capital:		
Increase in inventories	(29,121)	(9,257)
Increase in trade receivables	(174,718)	(46,368)
(Increase) / decrease in other current assets	(46,278)	10,666
Increase in trade payables	168,217	53,316
(Decrease) / increase in other liabilities	(11,112)	15,814
Net cash (used) / generated from operations	**(55,292)**	**156,024**

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

CASH FLOW STATEMENT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2007

(in thousands of HRK)	**2007**	**2006**
Cash flows from operating activities		
Cash generated from operations	(55,292)	156,024
Interest paid	(43,936)	(30,059)
Net cash (used) / generated from operating activities	**(99,228)**	**125,965**
Cash flows from investing activities		
Acquisition of equity interest	-	(1,114)
Sale of equity interest	-	13,006
Purchase of tangible and intangible assets	(308,231)	(148,164)
Sale of available-for-sale assets and tangible assets	67,662	18,551
Long-term loans given and deposits	(60,557)	-
Repayment of long-term loans given and deposits	73,685	24,781
Purchase of trading securities	(3,010)	(9,105)
Sale of trading securities	-	35,525
Short-term loans given and deposits	(20,484)	(301,641)
Repayment of short-term loans given and deposits	163,538	39,394
Interest received	12,376	18,236
Net cash used in investing activities	**(75,021)**	**(310,531)**
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	29,211	-
Repayment of long-term borrowings	(117,321)	(282,977)
Proceeds from short-term borrowings	721,600	292,596
Repayment of short-term borrowings	(426,000)	(182,724)
Proceeds from bonds issued	-	375,000
Dividends paid	(27,008)	(27,041)
Net cash generated from financing activities	**147,844**	**187,716**
Net (decrease) / increase in cash and cash equivalents	**(26,405)**	**3,150**
Cash and cash equivalents at beginning of year	80,675	77,525
Cash and cash equivalents at the end of year	54,270	80,675

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

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

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

Principal activities

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

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

Corporate governance and management

General Assembly

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

President	Branko Vuljak

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Supervisory Board

Supervisory Board members:

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 38).

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 Company's accounting policies.

2.2. Early adoption of Standards and Interpretations

The Company 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); and
- 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 Company.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

The financial statements of the Company have been prepared on the historical cost basis, adjusted by revaluation of 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 Company maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia. The accounting records of the Croatian and foreign subsidiaries are maintained in accordance with regulations effective in those jurisdictions.

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

The Company has issued these non-consolidated financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2007 and for the year then ended, in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 31 March 2008. In the consolidated financial statements, subsidiary undertakings (listed in Note 22) – which are those companies in which the Group, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Podravka Group's consolidated financial statements as at and for the year ended 31 December 2007 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Investments in subsidiaries

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

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

3.4. Non-current assets held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the balance sheet as 'Non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction within twelve months after the balance sheet date rather than through continuing use. 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.

3.5. Revenue recognition

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.5. Revenue recognition (continued)

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

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

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

(b) Sales of products and goods – retail

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

(c) 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.

3.6. Leases

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Foreign currencies

(a) Functional and presentation currency

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

(b) 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).

3.8. 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 Company does not capitalise borrowing costs.

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

3.9. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 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 Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Share-based payments (continued)

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

3.10. 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 on business segments are disclosed in note 5 to financial statements.

3.11. Taxation

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

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's 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 Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in foreseeable future.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Taxation (continued)

Deferred tax (continued)

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

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

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

Current and deferred tax for the period

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

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

Value added tax

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

3.12. Property, plant and equipment

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Property, plant and equipment (continued)

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.14).

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

3.13. 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 3.14).

Computer software

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Impairment of tangible and intangible assets

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

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

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

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

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

3.15. 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the allowancen is recognised in the income statement within line item 'selling and distribution costs'.

3.17. 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.

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

3.19. 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) Incentive benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19. Employee benefits (continued)

(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 and are presented outside of profit or loss, i.e. in the statement of recognised income and expenses.

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

(e) Short-term employee benefits

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

(f) Share-based compensation

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Provisions

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

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

3.21. 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’ , ‘investments held to maturity’ , ‘available-for-sale financial assets’ and ‘loans and receivables’. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Financial assets (continued)

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 38.

Held-to-maturity investments

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Financial assets (continued)

Available-for-sale financial assets (AFS)

Unlisted shares and listed redeemable notes held by the Company 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 Company's right to receive the dividends is established.

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

Loans and receivables

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

Impairment of financial assets

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Financial assets (continued)

Derecognition of financial assets

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

3.22. Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

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

Financial liabilities

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Derecognition of financial liabilities

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

3.23. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During 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 10,663 thousand.

Impairment of non-current assets

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. The impairments reported in the balance sheet for 2007 amounted to 0 HRK (2006: HRK 19,935 thousand). Based on a change in the underyling estimate, HRK 19,935 thousand were credited to income statement.

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.

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. Provisions for retirement bonuses amounted to HRK 11,458 thousand and jubilee awards HRK 4,794 thousand 31 December 2007 (2006: HRK total 14,296 thousand) (see note 35 and 37).

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES (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 Company measures a financial liability at fair value, and financial liabilities are subsequently remeasured at fair value. Any gains or losses arising from changes in the fair value will be reported in the income statement.

The Company is not reclassifying its financial liabilities designated at FVTPL during the period in which it holds them or delivers them.

NOTE 5 – SALES

	2007		2006	
	Sales		Sales	
	(in thousands of HRK)	%	*(in thousands of HRK)*	%
Sales of products:				
Food and beverages	1,632,875	74.3	1,118,360	70.0
Food and beverages – Group	430,787	19.6	367,162	23.0
	2,063,662		1,485,522	
Other sales:				
Services	6,610	0.3	10,129	0.6
Services – Group	128,587	5.8	101,007	6.4
	135,197		111,136	
	2,198,859	**100**	**1,596,658**	**100**

Segment information

Primary reporting format – geographical segments

The Company monitors realised income and gross profit based on the following geographical environments:
- Croatia and
- Foreign countries

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

(in thousands of HRK)	**Croatia**	**Foreign countries**	**Unallocated**	**Total**
Sales	1,008,642	588,016	-	**1,596,658**
Cost of goods sold	(597,955)	(378,964)	-	(976,919)
Gross profit	410,687	209,052	-	**619,739**
Profit from operations			45,843	**45,843**
Finance costs				(39,914)
Profit before tax				**5,929**
Income tax				-
Profit for the year				**5,929**

NOTE 5 – SALES (continued)

Segment information (continued)

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

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

The segment trade receivables and liabilities as at 31 December 2006 and for the year then ended were as follows:

(in thousands of HRK)	Croatia	Foreign countries	Unallocated	Total
Trade and other receivables, and other financial assets	855,975	170,263	-	1,026,238
Trade and other payables	525,284	59,432	-	584,716
Borrowings	724,672	14,633	-	739,305

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

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

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

NOTE 6 – INVESTMENT REVENUE

	2007	2006
	(in thousands of HRK)	
Dividend received	73,560	66,234
Interest on term deposits and trade debtors	13,120	6,698
Interest on loans and receivables – Group entities	13,718	15,276
Interest on loans	2,179	153
Other	-	330
	102,577	**88,691**

Investment revenue analysed by asset category

	2007	2006
	(in thousands of HRK)	
Equity investments in subsidiaries	73,560	66,234
Other financial assets	15,897	15,429
Trade and other receivables	13,120	6,698
Investment income earned on non-financial assets	-	330
	102,577	**88,691**

NOTE 7 – OTHER GAINS, NET

	2007	2006
	(in thousands of HRK)	
Gains on sale of available-for sale assets and fixed assets	44,932	9,908
Gains on disposal of investments	-	2,192
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 in income statement	18,801	-
Gains on value adjustment of investments, net	20,042	9,905
	83,775	**30,320**
Foreign exchange losses, net	(296)	(2,484)
	83,479	**27,836**

NOTE 8 – COST OF GOODS SOLD

	2007	**2006**
	(in thousands of HRK)	
Raw material and supplies	467,608	447,002
Cost of goods sold	699,823	198,075
Staff costs	205,478	199,079
Depreciation	62,531	74,749
Energy	34,224	35,441
Other	20,561	22,573
	1,490,225	**976,919**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2007	**2006**
	(in thousands of HRK)	
Staff costs	175,860	151,173
Services	49,278	19,373
Depreciation	12,669	20,788
Consultancy services	18,560	25,417
Rental costs	7,936	5,648
Bank charges	7,539	5,574
Telecommunications	6,465	6,410
Other	25,477	27,443
	303,784	**261,826**

NOTE 10 – SELLING AND DISTRIBUTION EXPENSES

	2007	**2006**
	(in thousands of HRK)	
Staff costs	146,602	129,679
Transport	44,570	36,113
Retnals	38,129	23,135
Depreciation	23,326	21,735
Energy	15,713	13,663
Maintenance	9,327	6,815
Per diems	5,649	5,126
Other services (distribution, intellectual, student service, handling)	14,134	12,547
Other	12,302	9,279
	309,752	**258,092**

NOTE 11 – MARKETING EXPENSES

	2007	2006
	(in thousands of HRK)	
Media investments	85,623	41,994
Marketing for traders and consumers	64,394	50,989
Market surveys and research	4,190	2,680
Staff costs	24,162	21,630
Other	51,369	51,153
	229,738	**168,446**

NOTE 12 – OTHER EXPENSES

	2007	2006
	(in thousands of HRK)	
Interest expense on trade payables	793	1,424
Write-off of loans to the Group	471	635
	1,264	**2,059**

NOTE 13 – EXPENSES BY NATURE

	2007	2006
	(in thousands of HRK)	
Cost of goods sold	672,505	166,483
Raw material and supplies	550,726	529,160
Staff costs	552,102	501,901
Advertising and promotion	183,921	126,300
Services	106,921	73,582
Depreciation	99,076	117,937
Rental costs	48,339	30,483
Transport	28,394	20,533
Taxes and contributionsirrespective of operating result	19,755	16,691
Telecommunications	14,131	13,577
Entertainment	9,406	6,588
Packaging waste disposal fee	6,585	6,769
Insurance premiums - net	3,993	4,957
Provisions for trade and other receivables	4,000	10,089
Design services	2,383	7,278
Changes in inventories of work in progress and finished goods	1,226	(1,634)
Collected trade and other receivables previously provided for	(1,144)	(4,842)
Other expenses	31,180	39,431
Total cost of goods sold, selling and distribution costs and administrative expenses	**2,333,499**	**1,665,283**

NOTE 14 – STAFF COSTS

	2007	2006
	(in thousands of HRK)	
Salaries	480,950	450,505
Termination benefits	29,309	16,754
Share options	14,367	13,839
Provision for unused vacation, jubilees and retirement benefit	11,834	6,220
Transportation	6,784	6,463
Other	8,858	8,120
	552,102	**501,901**

As at 31 December 2007, the number of staff employed by the Company was 4,136 (2006: 4,301 employees).

In 2007, the Company accrued and paid retirement incentives in the amount of HRK 29,309 thousand (2006: HRK 1,478 thousand) for 201 employees (2006: 32 employees).

NOTE 15 – FINANCE COSTS

	2007	2006
	(in thousands of HRK)	
Interest expense from long-term borrowings	(6,352)	(13,402)
Interest expense from short-term borrowings	(19,958)	(4,916)
Financial expense from call option on Company shares	(101)	(8,399)
Interest expense from issued bonds	(19,227)	(15,591)
Cost of early redemption of bonds	-	(1,755)
	(45,638)	(44,063)
Net foreign exchange (losses) / gains on borrowings	(886)	4,149
	(46,524)	**(39,914)**

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 (losses), net	(296)	(2,484)
Finance costs	(886)	4,149
	(1,182)	**1,665**

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	3,628	5,929
Tax calculated at weighted average tax rates applicable to the Company's profits	726	1,186
Effect of non-taxable income	(21,063)	(21,805)
Effect of expenses not deductible for tax purposes	15,558	10,852
Effect of concessions (research and development, education and other allowances)	(634)	(3,500)
Effect of tax losses brought forward	5,413	13,267

Unused tax losses:	2007	2006
	(in thousands of HRK)	
Unused tax losses	117,534	90,473

The availability of unused tax losses expires as follows:

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

In accordance with Croatian tax regulations, by the end of 2007 the Company realised tax losses in the amount of HRK 117,534 thousand (2006: HRK 90,473 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)

Unrecognised deffered tax asset

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

	2007	2006
	(in thousands of HRK)	
Jubilee awards	2,292	2,955
Termination benefits	959	3,055
Unused vacation	1,672	-
Tax losses	23,507	18,095
	28,430	**27,060**

In 2006, the Croatian tax authorities carried out a full-scope tax audit of the Company’s income tax and VAT returns for the periods 2004 and 2005. There is no material effect on these financial statements.

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

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

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

	2007	2006
Net profit/loss attributable to shareholders (in thousands of HRK)	3,628	5,929
Weighted average number of shares	5,388,817	5,371,612
Basic earnings per share (in HRK)	**0.67**	**1.10**

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/loss attributable to shareholders (in thousands of HRK)	3,628	5,929
Adjustment for share options	92,089	80,374
Weighted average number of shares in issue for diluted earnings per share	5,480,906	5,451,986
Diluted earnings per share (in HRK)	**0.66**	**1.09**

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	1,157,664	859,062	29,861	2,046,587
Additions	-	9,327	128,314	137,641
Transfers	10,065	28,423	(38,488)	-
Disposals	(1,474)	(35,361)	(5)	(36,840)
Transfer to non-current assets held for sale	(4,377)	-	-	(4,377)
At 31 December 2006	**1,161,878**	**861,451**	**119,682**	**2,143,011**
Accumulated depreciation				
At 1 January 2006	(476,249)	(578,804)	-	(1,055,053)
Additions	-	(8,429)	-	(8,429)
Disposals	(2,926)	33,491	-	30,565
Transfer to non-current assets held for sale	1,772	-	-	1,772
Charge for the year	(35,050)	(59,720)	-	(94,770)
At 31 December 2006	**(512,453)**	**(613,462)**	**-**	**(1,125,915)**
Carrying amount at 31 December 2006	**649,425**	**247,989**	**119,682**	**1,017,096**
Cost				
At 1 January 2007	1,161,878	861,451	119,682	2,143,011
Additions	946	3,112	163,834	167,892
Transfers	78,198	37,362	(115,560)	-
Disposals	(68,416)	(18,534)	-	(86,950)
At 31 December 2007	**1,172,606**	**883,391**	**167,956**	**2,223,953**
Accumulated depreciation				
At 1 January 2007	(512,453)	(613,462)	-	(1,125,915)
Additions	(538)	(2,590)	-	(3,128)
Disposals	48,759	18,065	-	66,824
Transfer to non-current assets held for sale	(35,074)	(46,876)	-	(81,950)
Charge for the year	**(499,306)**	**(644,863)**	**-**	**(1,144,169)**
At 31 December 2007	**673,300**	**238,528**	**167,956**	**1,079,784**

Company buildings and land worth HRK 487,513 thousand (2006: HRK 505,594 thousand) have been mortgaged against the Company's borrowings.

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

	2007	**2006**
	(in thousands of HRK)	
Cost of capitalised finance leases	62,311	3,471
Accumulated depreciation	(2,256)	(1,562)
Net book value	**60,055**	**1,909**

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

NOTE 21 – INTANGIBLE ASSETS

(in thousands of HRK)	**Software**	**Distribution right**	**Brand**	**Total**
Cost				
At 1 January 2006	99,073	67,694	-	166,767
Additions	3,449	-	15,500	18,949
Disposals	(4,490)	-	-	(4,490)
At 31 December 2006	**98,032**	**67,694**	**15,500**	**181,226**
Accumulated amortisation				
At 1 January 2006	(83,864)	(40,617)	-	(124,481)
Disposals	4,490	-	-	4,490
Impairment	-	(1,076)	-	(1,076)
Charge for the year	(9,629)	(13,538)	-	(23,167)
At 31 December 2006	**(89,003)**	**(55,231)**	**-**	**(144,234)**
Carrying amount at 31 December 2006	**9,029**	**12,463**	**15,500**	**36,992**
Cost				
At 1 January 2007	98,032	67,694	15,500	181,226
Additions	15,639	12,000	115,871	143,510
Disposals	(506)	-	-	(506)
At 31 December 2007	**113,165**	**79,694**	**131,371**	**324,230**
Accumulated amortisation				
At 1 January 2007	(89,003)	(55,231)	-	(144,234)
Additions	(43)	-	-	(43)
Disposals	506	-	-	506
Impairment – decommissioning	-	1,076	-	1,076
Charge for the year	(3,587)	(13,539)	-	(17,126)
At 31 December 2007	**(92,127)**	**(67,694)**	**-**	**(159,821)**
Carrying amount at 31 December 2007	**21,038**	**12,000**	**131,371**	**164,409**

NOTE 22 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country of incorporation	Proportion of ownership interest in %		Equity share in thousands of HRK		Principal activity
		2007	2006	2007	2006	
Belupo d.d., Koprivnica	Croatia	100.00	100.00	157,830	157,830	Production and distribution of pharmaceuticals
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	3,328	3,328	Services
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	102,216	102,216	Meet processing and production
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Trade
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	47,425	39,976	Ice cream manufacture
Sana d.o.o., Hoče	Slovenia	100.00	100.00	217	217	Wafers
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	1,925	1,925	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100.00	100.00	40	40	Sale and distribution
Podravka d.o.o., Podgorica	Monte Negro	100.00	100.00	1,029	1,029	Sale and distribution
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	1,068	1,068	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	100.00	1,148	1,148	Sale and distribution
Podravka-International Kft, Budapest	Hungary	100.00	100.00	5,343	5,343	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	100.00	10	10	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	100.00	100.00	426	426	Sale and distribution
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	49,717	49,717	Seasonings manufacture and sale
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	84	84	Sale and distribution
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	56,268	Rice production and sale
Podravka-International s.r.o., Bratislava	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution
				441,679	**421,744**	

During 2007, impairment losses were reversed in respect of the following equity investments: Ital-Ice d.o.o., Poreč – HRK 7,449 thousand; and Lagris a.s., Lhota u Luhačovic, Czech Republic, in the amount of HRK 12,486 thousand. The reversals were presented within Other gains, net.

NOTE 23 – OTHER FINANCIAL ASSETS

	2007	2006
	(in thousands of HRK)	
Loans	58,136	4,575
Loans to related companies	165,603	239,198
Deposits	2,689	2,494
Total other financial assets	**226,428**	**246,267**

NOTE 24 – FINANCIAL ASSETS AVAILABLE FOR SALE

In the balance sheet as at 31 December 2005, the investment in RTL d.o.o., Zagreb was recorded in the amount of HRK 21,037 thousand. 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, net (Note 7).

NOTE 25 – INVENTORIES

	2007	2006
	(in thousands of HRK)	
Raw materials and supplies	90,021	86,546
Work in progress	39,556	40,990
Finished goods	88,871	88,512
Trade goods	59,282	30,795
	277,730	**246,843**

In 2007, impairment losses were charged to certain inventories in the amount of HRK 1,766 thousand (2006: HRK 2,239 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 26 – TRADE AND OTHER RECEIVABLES

	2007	**2006**
	(in thousands of HRK)	
Current receivables		
Trade receivables	374,158	238,084
Less: Provisions for impairment	(55,712)	(57,193)
Net trade receivables	318,446	180,891
Intragroup trade receivables	236,820	202,477
Advances to suppliers	454	-
Short-term deposit	108,910	250,000
Loans given	625	-
Intragroup loans given	61,993	65,785
Bills of exchange received	31,523	29,660
Other receivables	119,480	51,158
Total current receivables	**878,251**	**779,971**

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

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

	2007	**2006**
	(in thousands of HRK)	
At 1 January	57,193	76,346
Increase	3,964	3,851
Collected	(1,144)	(4,842)
Written off as uncollectible	(4,301)	(18,162)
At 31 December	**55,712**	**57,193**

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 costs'.

Ageing analysis of trade receivables past due but not impaired

	2007	**2006**
	(in thousands of HRK)	
0-90 days	141,110	89,917
91-180 days	42,834	19,086
181-360 days	5,988	14,346

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

In 2006, impairment allowance for trade receivables on the Group level was included in 'Selling and distribution expenses', i.e the expense analysis by nature (Note 10, i.e 13). The Company eliminates all of its bad debt from Group entities as they are written off in full.

Other receivables at 31 December were as follows:

	2007	2006
	(in thousands of HRK)	
Profit distributions from related entities	73,944	25,808
Other receivables from related companies	13,746	1,345
Net VAT receivable	24,702	15,960
Withholding tax refund	-	155
Receivables from employees	3,017	2,208
Prepaid expenses	916	981
Amounts due from settlement arrangements	-	3
Other receivables – gross	4,759	6,266
Impairment allowance for other receivables	(1,604)	(1,568)
	119,480	**51,158**

In 2007, an impairment allowance for other receivables in the amount of HRK 36 thousand (2006: HRK 1,272 thousand) was presented within 'Selling and distribution expenses', i.e. the expense analysis by nature.

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

	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**

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

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	54,132	80,480
Cash in hand	136	187
Cheques received	2	8
	54,270	**80,675**

NOTE 29 – ASSETS HELD FOR SALE

	2007	**2006**
	(in thousands of HRK)	
Property at Baruna Trenka 2, Zagreb	-	2,605
	-	**2,605**

In 2007, property in Zagreb was sold for an amount of HRK 4,415 thousand. The difference between the sales price and the book value in the amount of HRK 1,810 thousand is recorded within Other gains, net (note 7).
The decision to sell the property was made in December 2006.

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	26,116	(19,573)	1,632,544
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:					
- options exercised	62,334	-	(2,386)	16,595	14,209
- fair value of options	-	-	13,839	-	13,839
Call option on Company shares	-	-	(238,876)	-	(238,876)
At 31 December 2006	**5,400,314**	**1,626,001**	**(197,646)**	**(6,711)**	**1,421,644**
At 1 January 2007	**5,400,314**	**1,626,001**	**(197,646)**	**(6,711)**	**1,421,644**
Purchase of treasury shares	(109,402)	-	-	(57,526)	(57,526)
Employee share options:					
- options exercised	52,918	-	(13,782)	24,888	11,106
- fair value of options	-	-	14,367	-	14,367
Call option on Company shares	-	-	238,876	-	238,876
At 31 December 2007	**5,343,830**	**1,626,001**	**41,815**	**(39,349)**	**1,628,467**

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.

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

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 Company entered into a share option agreement with an unrelated third party (“Put option holder”). According to the agreement. the Company 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 Company 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.

NOTE 31 – RESERVES

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Reserves for treasury shares**	**Total**
At 1 January 2006	5,202	40,732	24,647	70,581
Transfers		19,921	(19,921)	-
Dividends declared	-	(19,921)	-	(19,921)
Transfer to reserves	678	644	-	1,322
At 31 December 2006	**5,880**	**41,376**	**4,726**	**51,982**
At 1 January 2007	5,880	41,376	4,726	51,982
Dividend declared	-	(25,703)	-	(25,703)
Transfer to reserves	297	182	1,986	2,465
At 31December 2007	**6,177**	**15,855**	**6,712**	**28,744**

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

According to the decision of the General Assembly of the Company in July 2007 the Company's profit for 2006 was allocated to: legal reserves in the amount of HRK 297 thousand, to treasury share reserve HRK 1,986 thousand, and to other reserves in the amount of HRK 182 thousand.

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	3,770	8,442
Transfer to legal and other reserves	(2,465)	(1,322)
Dividends paid	(1,305)	(7,120)
Exercised options	-	(2,159)
Net profit for the period	3,628	5,929
At 31 December	**3,628**	**3,770**

NOTE 33 – FINANCIAL LIABILITIES AT FAIR VALUE

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

As at 17 May 2006 the Company issued bonds with interest rate amounting to 5.125% and due date as at 17 May 2011 in nominal value of HRK 375,000 thousand.

The effective interest rates at the balance sheet date 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	47,463	90,567
Banks in foreign countries	-	-
Finance lease	28,734	1,212
	76,197	**91,779**
Current borrowings		
Banks in Croatia	350,910	258,454
Banks in foreign countries	145,037	14,633
Finance lease	1,710	692
Other	759	1,589
	498,416	**275,368**
Total borrowings	**574,613**	**367,147**

Bank borrowings in the amount of HRK 90,373 thousand (2005: HRK 206,691 thousand) are secured by mortgages over the Company’s land and buildings.

NOTE 34 – LONG-TERM DEBT (continued)

The finance lease liability is 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	4,010	770	2,300	78	1,710	692
Between 1 and 5 years	13,798	1,268	9,804	56	3,994	1,212
After 5 years	33,199	-	8,459		24,740	-
Less: future finance charges	**(20,563)**	**(134)**	**20,563**	**134**	**30,444**	**1,904**
Present value of minimum lease payments	**30,444**	**1,904**			**30,444**	**1,904**
Included in the financial statements within:						
Current borrowings					1,710	692
Non-current borrowings					28,734	1,212
					30,444	**1,904**

The exposure of the Company'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	137,228	236,968
6 – 12 months	225,188	52,356
1 – 5 years	183,558	60,291
Over 5 years	28,639	17,532
	574,613	**367,147**

If the interest rate on borrowings at variable rates increases by 8.43% on average, the liability in respect of interest would increase by HRK 2,437 thousand.

The maturity of non-current borrowings is as follows:

	2007	**2006**
	(in thousands of HRK)	
Between 1 and 2 years	11,656	43,668
Between 2 and 5 years	35,902	30,579
Over 5 years	28,639	17,532
	76,197	**91,779**

NOTE 34 – LONG-TERM DEBT (continued)

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	-	5.10	-	4.00	5.10	-
Banks in foreign countries	-	-	-	-	5.76	-
Finance lease	-	7.76	-	-	6.16	-
Current borrowings						
Banks	4.92	6.20	-	4.84	4.73	-
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 %.

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	47,463	90,567	43,912	88,898
Finance lease	28,734	1,212	28,734	1,260
	76,197	**91,779**	**72,646**	**90,158**

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

The carrying amounts of short-term borrowings approximate their fair value and the discounting effect is not significant.

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

	2007	2006
	(in thousands of HRK)	
HRK	327,759	216,406
EUR	246,854	150,741
	574,613	**367,147**

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.

NOTE 34 – LONG-TERM DEBT (continued)

The Company has the following undrawn borrowing facilities:

	2007	2006
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	81,941	48,698
	81,941	**48,698**

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	12,643	-	-	-	3,773	16,416
Current	2,130	-	-	15,276	-	17,406
At 1 January 2007	**14,773**	**-**	**-**	**15,276**	**3,773**	**33,822**
Expense/(income) in the income statement:						
Increase / (decrease) of provisions	(1,323)	8,362	4,794	-	120	11,953
Utilised during the year	(1,992)	-	-	(15,276)	(597)	(17,865)
At 31 December 2007	**11,458**	**8,362**	**4,794**	**-**	**3,296**	**27,910**
Analysis of total provisions as at 31 December 2007:						
Non-current	9,943	-	4,794	-	3,296	18,033
Current	1,515	8,362	-	-	-	9,877
	11,458	**8,362**	**4,794**	**-**	**3,296**	**27,910**

Employee benefits

This provision relate to 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 in the amount of HRK 9,943 thousand relates to the estimated acquired rights to jubilee awards that will be paid after 2008.

The current amount of employee benefits includes HRK 8,362 thousand in respect of unused vacation days and HRK 1,515 thousand in respect of annual awards that will be paid in 2008.

NOTE 35 – PROVISIONS (continued)

Termination benefits

In 2007, a long-term provision for regular retirement benefits was made in the amount of HRK 4,794 thousand.

Based on adopted restructuring plans, as a result of operating requirements the Company reached a redundancy agreement with 93 employees in December 2006, ensuring payment of a stimulating termination benefit in the amount of HRK 15,276 thousand, which was paid in January 2007.

Legal proceedings

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

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

NOTE 36 – TRADE AND OTHER PAYABLES

	2007	2006
	(in thousands of HRK)	
Trade payables	367,255	242,139
Trade payables – Group entities	74,196	30,301
Liabilities in respect of call options on Company shares	-	247,275
Other liabilities	69,901	65,001
	511,352	**584,716**

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	37,073	36,487
Dividends payable	2,087	2,213
Accrued interest not yet due on bonds and borrowings	16,740	15,163
Package waste disposal fee payable	5,533	7,406
Other	8,468	3,732
	69,901	**65,001**

NOTE 37 – RETIREMENT BENEFIT PLAN

Defined benefit plan

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

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

The Company 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 Company made a provision of HRK 11,458 thousand for jubilee awards and HRK 4,794 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	5.89%
Average expected remaining working lives (years)	24

NOTE 37 – RETIREMENT BENEFIT PLAN (continued)

The amounts recognised in the financial statements in respect of the defined benefit plan:

	2007
	(in thousands of HRK)
Current service cost	845
Interest expense	789
Benefits paid	(1,549)
Other actuarial changes	(568)
Net actuarial losses for the year	2,439
	1,956

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	11,458	14,296
Present value of retirement benefit	4,794	-
Obligation reported in the balance sheet	**16,252**	**14,296**

Of which by maturity:

	2007	2006
	(in thousands of HRK)	
Short-term	1,515	1,653
Long-term	14,737	12,643
	16,252	**14,296**

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

	2007
	(in thousands of HRK)
At 1 January	14,296
Current service cost	845
Interest expense	789
Actuarial losses	2,439
Benefits paid	(1,549)
Other actuarial changes	(568)
At 31 December	**16,252**

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)	928,613	739,305
Cash and cash equivalents	(54,270)	(80,675)
Net debt	874,343	658,630
Equity	1,660,839	1,477,396
Net debt to equity ratio	52.64%	44.58%

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)	1,128,406	1,077,253
Held-to-maturity investments – bills of exchange	31,523	29,660
Financial assets at fair value through profit or loss	6,163	3,046
Financial liabilities		
Finance lease obligations	30,444	1,904
Amortisation charge (borrowings, trade and other payables)	1,055,521	949,959
Financial liabilities at fair value – bonds	354,000	372,158

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.4. Financial risk management objectives

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

The Treasury function at Podravka provides financial services for Podravka and coordinates the financial operations of the 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 Company 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 60 % of the products sold at Podravka as a food manufacturer in the sales.

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

Sales function based risk

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

NOTE 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)	316,030	196,179	185,605	175,630
USA (USD)	9,276	12,653	17,079	14,993
Other currencies	834	1,228	26,247	9,938

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 0.38% decrease in 2007 in Croatian kuna against the relevant foreign currencies (2006: 1.12% increase). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for percentage change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna changes for above mentioned percentage against the relevant currency. For a reverse 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	447	-	-	-
Loss	-	154	179	129

	Impact of other currencies	
	2007	2006
	(in thousands of HRK)	
Profit	-	83
Loss	837	-

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

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.6. Interest rate risk management

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

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates 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 50 basis points, assuming that all other variables are held constant, there would be a change in interest expenses for the year ended 31 December 2007 would decrease by HRK 2,437 thousand (2006: decrease by HRK 1,371 thousand). Due to increased long term liabilities with variable interest rate, the effect of possible change of interest rate on profit is increased.

38.7. Other price risks

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

38.8. Credit risk management

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

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

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

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

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.8. Credit risk management (continued)

The Company transacts with a large number of customers from various industries and of various size. The major risk concentration is found in releation to shopping malls.
The Company has no significant credit exposures that would not be covered by collateral.

38.9. Liquidity risk management

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

Liquidity and interest rate tables

The following tables detail the Company's remaining contractual maturity for its financial liabilities. 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	-	367,419	131,204	22,605	-	18,033	539,261
Interest bearing	5.16	138	273,702	224,577	408,776	21,420	947,414
		367,557	404,906	277,002	408,776	39,453	1,467,874
2006							
Non-interest bearing	-	235,374	89,745	277,002	-	16,416	618,537
Interest bearing	4.81	59	1,297	274,013	436,489	27,447	739,305
		235,433	91,042	551,015	436,489	43,863	1,357,842

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 313,802 thousand for the year 2007 (2006: HRK 189,783 thousand) and amounts due to employees in the amount of HRK 37,073 thousand (2006: HRK 36,487 thousand).

The non-interest bearing liabilities of the Company due in a period of over five years include. among others. long-term provisions in the amount of HRK 18,033 thousand in 2007 (2006: HRK 16,416 thousand).

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

NOTE 38 – FINANCIAL INSTRUMENTS (continued)

38.9. Liquidity risk management (continued)

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

The tables have been drawn up based on the undiscounted cash flows of financial 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	-	473,929	195,561	38,213	-	-	707,703
Interest bearing	3.89	59,002	119,426	47,370	224,460	1,968	452,226
		532,931	314,987	85,583	224,460	1,968	1,159,929
2006							
Non-interest bearing	-	279,762	154,430	29,994	-	-	464,186
Interest bearing	3.44	85,964	11,123	299,373	244,494	1,773	642,727
		365,726	165,553	329,367	244,494	1,773	1,106,913

38.10. 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 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. 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:

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

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	80,374					
Opening blance + transfers	96,374					
Series 4	20,000	2003	2008	184.36	171.00	510.00
Series 4 – transfer	8,000	2003	2008	110.62	171.00	510.00
Series 5	47,374	2004	2009	198.04	239.00	510.00
Series 5 – transfer	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	48,633		2012	466.13	510.00	510.00

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
Option life	5	5	5	5	5	5	5	5	5	5

NOTE 39 – SHARE BASED PAYMENTS (continued)

Overview of option balances and exercised options

	2007 Number of options	Weighted average exercise price	Weighted average price at exercise date	2006 Number of options	Weighted average exercise price	Weighted average price at exercise date
Balance at beginning of year	80,374	210.79	-	142,708	202.79	-
Granted during the year	48,633	466.13	-	-	-	-
Transfers	16,000	114.72	-	-	-	-
Exercised during the year	52,918	209.88	545.48	62,334	193.32	402.83
Total exercised during the year	52,918	209.88	545.48	62,334	193.32	402.83
Balance at end of year	**92,089**	**329.30**		**80,374**	**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 – transfer	1,460	2007	485.02
Series 5	24,458	2007	507.46
Series 6	10,000	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 – transfer	6,540	2003	2008	110.62	171.00	510.00
Series 5	22,916	2004	2009	198.04	239.00	510.00
Series 5 - transfer	8,000	2004	2009	118.82	239.00	510.00
Series 6	11,750	2004	2009	296.69	318.00	510.00
Series 7	39,883	2007	2012	503.30	510.00	510.00
Closing balance - 2007	**92,089**					

NOTE 39 – SHARE BASED PAYMENTS (continued)

As at 31 December 2007 92,089 options became vested (2006: 80,374 options). In 2007 40,456 options (2006: 20,000 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

Related party transactions include operating business transactions with Podravka Group companies. Items resulting from these transactions and balances as at 31 December 2007 and 31 December 2006 are as follows:

REVENUE

	2007	2006
	(in thousands of HRK)	
Income from sales of goods and merchandise	430,787	367,162
Income from services	128,587	101,007
	559,374	**468,169**

	Sales of products and trade goods		Sales of services	
	2007	**2006**	**2007**	**2006**
	(in thousands of HRK)		*(in thousands of HRK)*	
Group company				
Belupo d.d., Koprivnica	546	463	29,853	39,336
Danica d.o.o., Koprivnica	17,877	2,169	83,350	10,801
Poni trgovina d.o.o., Koprivnica	5	34	-	27,003
Ital-Ice d.o.o., Poreč	238	867	1,512	5,732
Podravka d.o.o., Ljubljana	72,185	63,157	799	-
Podravka d.o.o., Beograd	48,003	33,455	3,089	5,293
Podravka d.o.o.e.l., Skopje	30,754	31,110	765	1,775
Podravka d.o.o., Sarajevo	129,938	109,557	2,215	4,872
Podravka-Int.Deutschland-"Konar" GmbH	36,983	32,667	1,149	1,215
Podravka-International kft. Budapest	14,859	15,514	352	503
Podravka-International Pty Ltd. Sydney	21,075	20,002	918	57
Podravka-International s r.o., Bratislava	14,669	16,392	147	24
Podravka-Polska Sp.z o.o., Kostrzyn	5,529	6,985	3,729	3,284
Podravka d.o.o.,Podgorica	21,537	13,581	468	663
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	16,589	16,714	121	25
Other companies	-	4,495	120	424
Total related party sales	**430,787**	**367,162**	**128,587**	**101,007**

NOTE 40 – RELATED PARTY TRANSACTIONS (continued)

Investment revenue

	2007	2006
	(in thousands of HRK)	
Interest income	13,718	15,276
Profits of subsidiaries	73,559	66,234
	87,277	**81,510**

EXPENSES

Remuneration to the Management Board members and executives

	2007	2006
	(in thousands of HRK)	
Salaries	28,539	24,148
Share options through income statement	14,367	13,839
Share options in equity	-	7,629
	42,906	**45,616**

LOAN RECEIVABLES

Loan receivables – long-term:

	2007	2006
	(in thousands of HRK)	
At beginning of year	304,983	300,507
Increase during the year	4,557	64,287
Repayments received	(72,066)	(59,748)
Other movements	9,756	-
Foreign exchange difference	(122)	(63)
Accrued interest	(15,905)	(16,099)
Interest collected	(12,367)	(18,255)
At end of year	227,596	304,983
Maturity: one year or less	(61,993)	(65,785)
	165,603	**239,198**

NOTE 40 – RELATED PARTY TRANSACTIONS (continued)

Loan receivables – current:

	2007	2006
	(in thousands of HRK)	
At beginning of year	-	14,447
Increase during the year	20,484	49,641
Repayments received	(20,448)	(62,882)
Other movements	-	(641)
Foreign exchange difference	(36)	(565)
Accrued interest	831	2,500
Interest collected	831	2,485
At end of year	**-**	**-**
Maturity: one year or less	61,993	65,785
	61,993	**65,785**
Total loan receivables	**227,596**	**304,983**

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

	Interest rate	2007	2006
		(in thousands of HRK)	
Belupo d.d., Koprivnica	5% p.a.	172,095	215,118
Danica d.o.o., Koprivnica	4.84% p.a.	44,709	58,466
Poni d.o.o., Koprivnica	5% p.a.	-	19,847
Ital-Ice d.o.o., Poreč	5% p.a.	2,000	3,000
Podravka d.o.o., Belgrade	1mj EURIBOR + 2%	5,494	8,552
Podravka-International kft. Budapest	5.5% p.a.	3,298	-
		227,596	**304,983**

The effective interest rate is 5.08% p.a.

The maturity of long-term borrowings is as follows:

	2007	2006
	(in thousands of HRK)	
Between 1 and 2 years	61,993	65,498
Between 2 and 5 years	103,610	173,700
	165,603	**239,198**

NOTE 40 – RELATED PARTY TRANSACTIONS (continued)

BORROWINGS

	Effective interest rate			
	2007	2006	2007	2006
			(in thousands of HRK)	
KOTI Nekretnine d.o.o., Koprivnica	5%	-	333	-
			333	**-**

TRADE RECEIVABLES AND PAYABLES

	Short-term trade receivables		Short-term trade payables	
	2007	2006	2007	2006
	(in thousands of HRK)		(in thousands of HRK)	
Company:				
Belupo d.d., Koprivnica	23,231	19,031	439	491
Danica d.o.o., Koprivnica	49,788	5,082	58,603	23,045
Poni trgovina d.o.o., Koprivnica	-	28,958	637	2,236
Ital-Ice d.o.o., Poreč	334	5,618	13,187	171
Podravka d.o.o., Ljubljana	17,351	13,119	219	1
Podravka d.o.o., Belgrade	22,516	23,718	4	53
Podravka d.o.o.e.l., Skopje	18,489	16,659	134	817
Podravka d.o.o., Sarajevo	54,910	49,383	3	-
Podravka-Int.Deutschland-„Konar“ GmbH	13,058	11,918	-	-
Podravka-International kft. Budapest	8,797	5,784	-	-
Podravka-International Pty Ltd. Sydney	5,970	3,272	2	15
Podravka-International s r.o., Bratislava	6,147	5,989	-	4
Podravka-Polska Sp.z o.o., Kostrzyn	2,755	4,332	416	2,372
Podravka d.o.o., Podgorica	6,398	4,385	-	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	7,041	5,180	111	205
Other companies	35	49	441	891
Total trade receivables and payables – Group entities	**236,820**	**202,477**	**74,196**	**30,301**

NOTE 40 – RELATED PARTY TRANSACTIONS (continued)

OTHER RECEIVABLES

Receivables from related parties in respect of profit distributions

	2007	2006
	(in thousands of HRK)	
Belupo d.d., Koprivnica	65,000	25,000
Podravka-Polska Sp.z o.o., Kostrzyn	8,944	-
Podravka d.o.o., Podgorica	-	808
	73,944	**25,808**

Other receivables from Group entities

	2007	2006
	(in thousands of HRK)	
Belupo d.d., Koprivnica	13,436	893
Danica d.o.o., Koprivnica	238	289
Poni trgovina d.o.o., Koprivnica	-	101
Ital-Ice d.o.o., Poreč	10	15
Podravka d.o.o., Belgrade	-	47
Podravka-International kft. Budapest	62	-
	13,746	**1,345**

GUARANTEES AND WARRANTIES

Guarantees and warranties to related companies

	2007	2006
	(in thousands of HRK)	
Danica d.o.o., Koprivnica	102,838	94,646
Belupo d.d., Koprivnica	86,964	84,573
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	85,316	82,844
Podravka-Polska Sp.z o.o., Kostrzyn	38,235	36,042
Podravka d.o.o., Ljubljana	12,526	13,639
Podravka-International s r.o., Bratislava	9,596	9,362
Podravka d.o.o., Beograd	6,958	1,835
Ital-Ice d.o.o., Poreč	5,128	5,142
Podravka-International S.R.L., Bucuresti	477	-
Poni trgovina d.o.o., Koprivnica	-	1,400
Sana d.o.o., Hoče	-	654
Podravka-International kft. Budapest	-	13,991
	348,038	**344,128**

NOTE 41 – CONTINGENCIES

	2007	2006
	(in thousands of HRK)	
Legal proceedings	1,838	810
Guarantees – external	53,041	21,300
Guarantees – Group	348,038	344,128
	402,917	**366,238**

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 Company.

NOTE 42 – COMMITMENTS

In 2007 the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 68,242 thousand (2006: HRK 61,013 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 truck,. refrigerator show-cases and IT equipment are as follows:

	2007	2006
	(in thousands of HRK)	
Not later than 1 year	27,915	19,522
Later than 1 year and not later than 5 years	56,933	20,553
	84,848	**40,075**

NOTE 43 – APPROVAL OF THE FINANCIAL STATEMENTS

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

Darko Marinac

President of the Management Board