PODRAVKA d.d. and Its Subsidiaries, Koprivnica

Consolidated Financial Statements
At 31 December 2008
Together with Independent Auditor's Report

CONTENTS

RESPONSIBLITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

Zdravko Šestak

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 30 March 2009

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

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

Management’s Responsibility for the Consolidated Financial Statements

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

Auditor’s Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Matters affecting the opinion

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

Opinion

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

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor

30 March 2009

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

CONSOLIDATED BALANCE SHEET

FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

CONSOLIDATED CASH FLOW STATEMENT (continued)

FOR THE YEAR ENDED 31 DECEMBER 2008

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

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

NOTE 1 – GENERAL INFORMATION

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

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

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

Corporate governance and management

General Assembly

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

President	Branko Vuljak

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

Supervisory Board

Supervisory Board members in 2008:

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

Supervisory Board members in 2007:

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Management Board in 2008, since 22 July 2008

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

Management Board in 2007	President	Darko Marinac
	Member	Zdravko Šestak
	Member	Miroslav Vitković
	Member	Saša Romac
	Member	Dragan Habdija
	Member	Goran Markulin

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS

2.1. Standards and Interpretations effective in the current period

IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's consolidated financial statements.

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

The following Interpretations to the published Standards are mandatory for accounting periods beginning on or after 1 January 2008 but are not relevant to the Group's operations:

- IFRIC 12 'Service Concession Arrangements'; and
- IFRIC 13, 'Customer Loyalty Programmes'.
- IFRIC 14 'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction'.

2.2. Standards and amendments early adopted by the Group

The Group has not adopted early any Standards or Interpretations.

2.3. Standards and Interpretations in issue but not yet adopted

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

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

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

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

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

3.3. Basis of consolidation

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Goodwill

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

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

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

3.5. Non-current assets held for sale

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Revenue recognition

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

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

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

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

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

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

(b) Sales of products and goods – retail

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

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Revenue recognition (continued)

(f) Government subsidies

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

3.7. Leases

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

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

3.8. Foreign currencies

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

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

3.9. Borrowing costs

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Share-based payments

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

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

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

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

3.11. Dividends

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

3.12. Segment reporting

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Taxation (continued)

Current and deferred tax for the period

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

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

Value added tax

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

3.14. Property, plant and equipment

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Intangible assets

Licences and distribution rights

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

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

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

Computer software

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

3.16. Impairment of tangible and intangible assets

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Impairment of tangible and intangible assets (continued)

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

3.16. Inventories

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

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

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

Small inventory and tools are expensed when put into use.

3.17. Trade receivables

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

3.18. Cash and cash equivalents

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.19. Share capital

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

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

3.20. Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

(c) Regular retirement benefits

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

(d) Long-term employee benefits

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Employee benefits (continued)

(e) Short-term employee benefits

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

(f) Share-based compensation

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

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

3.21. Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets

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

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

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

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

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets (AFS)

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

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

Derecognition of financial assets

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

3.24. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During 2007, the directors determined that the useful life of certain items of exceeded the original estimates, resulting in a decreased depreciation charge by HRK 14.6 million. No changes to the useful lives of property, plant and equipment have been made during 2008.

Impairment of non-current assets, including goodwill

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

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

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

Actuarial estimates used in determining the retirement bonuses

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

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

Consequences of certain legal actions

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

Fair value estimates of financial assets at fair value through profit or loss

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

The Company measures a financial liability initially and remeasures it subsequently at fair value, whereby any gain or loss arising from changes in the fair value will be reported in the income statement.

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

In 2006, the year of bond issue, the Group made a deposit of HRK 250 million for the purpose of reinvestment. The balance deposited during 2007 amounted from HRK 130 to 505 million, and the deposit balance as of 31 December 2007 amounted to HRK 108 million. Any gain or loss arisen as a result of non-proportionate portion of offsetting the opposite effects was not considered material, as the Company intends to repurchase those bonds in the near future and reduce the level of the risk. During 2008 the investment strategy has partly changed as a result of the external impact of the financial market. The Company did not apply this method for speculative purposes.

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

Impairment allowance

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

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

NOTE 5 – SALES

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

Business segment information

Primary reporting format – Business Segments

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

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

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

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

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

Other segment information:

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

NOTE 5 – SALES (continued)

Segment assets, liabilities and additions

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

Analysis by geographical location

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

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

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

NOTE 6 – INVESTMENT REVENUE

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

NOTE 7 – OTHER GAINS, NET

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

NOTE 8 – COST OF GOODS SOLD

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

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

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

NOTE 10 – SELLING AND DISTRIBUTION EXPENSES

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

NOTE 11 – MARKETING EXPENSES

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

NOTE 12 – OTHER EXPENSES

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

NOTE 13 – EXPENSES BY NATURE

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

NOTE 14 – STAFF COSTS

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

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

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

The benefits paid represent regular, non-taxable benefits.

NOTE 15 – FINANCE COSTS

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

NOTE 16 – NET FOREIGN EXCHANGE GAINS/(LOSSES)

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

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

NOTE 17 – INCOME TAX

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

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

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

The availability of unused tax losses expires as follows:

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

Deferred taxes are presented in the balance sheet as follows:

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

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

NOTE 17 – INCOME TAX (continued)

Deferred tax assets arise from the following:

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

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

Deferred tax liabilities arise from the following:

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

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

NOTE 18 – EARNINGS PER SHARE

Basic earnings per share

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

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

Diluted earnings per share

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

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

NOTE 19 – DIVIDEND PER SHARE

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

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

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT

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

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

NOTE 21 - GOODWILL

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

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

NOTE 22 – OTHER INTANGIBLE ASSETS

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

NOTE 23 – INVESTMENTS IN SUBSIDIARIES

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

NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)

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

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

NOTE 24 – INVENTORIES

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

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

NOTE 25 – OTHER FINANCIAL ASSETS

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

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

NOTE 26 – TRADE AND OTHER RECEIVABLES

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

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

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

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

Ageing analysis of trade receivables past due but not impaired

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

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

Other receivables at 31 December were as follows:

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

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

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

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

Movements during the year are as follows:

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

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

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

NOTE 28 – CASH AND CASH EQUIVALENTS

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

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

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

NOTE 30 – SHAREHOLDERS' EQUITY

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

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

NOTE 31 – RESERVES

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

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

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

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

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

NOTE 32 – RETAINED EARNINGS

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

NOTE 33 – MINORITY INTEREST

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

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

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

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

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

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

NOTE 35 – BORROWINGS

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

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

The finance lease liabilities of the Group are as follows:

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

	2008	2007
Included in the financial statements within:		
Current borrowings	3,925	2,930
Non-current borrowings	28,875	29,201
	32,800	**32,131**

NOTE 35 – BORROWINGS (continued)

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

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

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

The maturity of non-current borrowings is as follows:

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

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

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

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

NOTE 35 – BORROWINGS (continued)

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

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

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

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

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

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

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

The Company has the following undrawn borrowing facilities:

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

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

NOTE 36 – PROVISIONS

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

Employee benefits

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

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

Termination benefits

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

Legal actions

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

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

NOTE 37 – TRADE AND OTHER PAYABLES

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

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

Other liabilities include the following:

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

NOTE 38 – RETIREMENT BENEFIT PLAN

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

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

NOTE 38 – RETIREMENT BENEFIT PLAN (continued)

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

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

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

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

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

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

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

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

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

NOTE 38 – RETIREMENT BENEFIT PLAN (continued)

Of which by maturity:

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS

39.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

The Treasury of Podravka d.d. and the Podravka Group reviews the capital structure on an semi-annual basis.
As part of this review, the Treasury considers the cost of capital and the risks associated with each class of capital.

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

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

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

39.2. Significant accounting policies

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

39.3. Categories of financial instruments

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.4. Financial risk management objectives

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

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

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

39.5. Market risk

Commodity risk management (price risk)

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

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

Sales function based risk

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.6. Foreign exchange risk management

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

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

Foreign currency sensitivity analysis

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

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

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.7. Interest rate risk management

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

Interest rate sensitivity analysis

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

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

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

39.8. Other price risk

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.9. Credit risk management

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

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

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

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

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

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

39.10. Liquidity risk management

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

Liquidity and interest rate tables

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.10. Credit risk management (continued)

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

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

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.10. Liquidity risk management (continued)

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

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

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

39.11. Fair value of financial instruments

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

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

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

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

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

NOTE 40 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares are granted to members of Management and certain executive directors in accordance with the applicable Contracts effective for the periods from 2000 to 2007, those applicable in the year 2008 and thereafter.
The exercise price of the granted option equals the average share price of the Company's shares per the Zagreb Stock Exchange in the year the option is granted (until 2005, the employees of Belupo were entitled to a purchase price of 60% of the average price). The vesting period normally starts at the beginning of the business year. Options are acquired separately for each business year.
The vesting period for the options awarded under the contracts effective from 2000 to 2007 is one year, and for the options awarded under the contracts in effect for 2008, the vesting period is one year.
The exercise period for the options granted until 2008 is from 3 to 5 years after the end of the year when they were granted, and for those granted in 2008, it is from 1 to 3 years after the end of the year in which were granted. Based on historical practice, upon termination of employment the options vest immediately and can be exercised within a period of up to 6 months, as determined by the Employment Termination Agreement. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

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

2008

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year	Fair value at 31/12/2008
Opening balance	98,089					
Series 4	3,000	2003	2008	184.36	171.00	261.00
Series 4	6,540	2003	2008	110.62	171.00	261.00
Series 5	22,916	2004	2009	198.04	239.00	261.00
Series 5	8,000	2004	2009	118.82	239.00	261.00
Series 6	11,750	2005	2010	296.69	318.00	261.00
Series 7	45,883	2007	2012	507.48	510.00	261.00
Options granted during 2008						
Series 8	36,799	2008	2011	361.14	261.00	261.00

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

Inputs into the model

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

NOTE 40 – SHARE-BASED PAYMENTS (continued)

Employee share options (continued)

Overview of option balances and exercised options

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

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

Options exercised during 2008

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

Balance at the end of 2008, by series

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

NOTE 40 – SHARE-BASED PAYMENTS (continued)

Employee share options (continued)

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

NOTE 41– RELATED PARTY TRANSACTIONS

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

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

NOTE 42 – ACQUISITION OF SUBSIDIARIES

42.1. Acquirees

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

42.2. Analysis of acquired assets and liabilities

Lero d.o.o.

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

Podravka d.d. acquired the entire equity share in Lero d.o.o. on 15 October 2008, at a total cost of HRK 89,993 thousand.

Lero d.o.o. was established by the seller for the purpose of sale, with the fixed assets contributed to the company's capital measured at fair value. The company was established and sold during 2008. Therefore, the reported carrying amounts are concordant with the fair value of the Company.

NOTE 42 – ACQUISITION OF SUBSIDIARIES (continued)

42.2. Analysis of acquired assets and liabilities (continued)

Acquirees of Belupo d.d. during 2008:
Farmavita d.o.o.

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

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

NOTE 42 – ACQUISITION OF SUBSIDIARIES (continued)

42.2. Analysis of acquired assets and liabilities (continued)

Drugstores

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

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

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

42.3. Cost of acquisition

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

42.4. Net outflow on acquisitions

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

NOTE 42 – ACQUISITION OF SUBSIDIARIES (continued)

42.5. Goodwill arising on acquisition

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

42.6. Impact of acquisition on the results of the Group

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

In determining the "pro-forma" revenue and profit of the Group had the business combinations been effected at 1 January 2008, the management has:

- calculated depreciation and amortisation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements,
- based borrowing costs on the funding levels, credit ratings and debt/equity position of the Group after the business combination; and
- excluded takeover defence costs of the acquirees as a one-off pre-acquisition transaction.

NOTE 43 – CONTINGENT LIABILITIES

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

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

NOTE 44 – COMMITMENTS

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

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

NOTE 45 – SUBSEQUENT EVENTS

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

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

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

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

NOTE 46 – APPROVAL OF THE FINANCIAL STATEMENTS

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

Zdravko Šestak

President of the Management Board