PODRAVKA GROUP
Annual Report
2009

TABLE OF CONTENTS

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INTRODUCTORY STATEMENT FROM THE MANAGEMENT BOARD PRESIDENT

Dear shareholders,
Business year 2009 for Podravka Group was a year of significant savings in operating costs, a year in which we have provided for surplus employees with stimulating severance payments, as a socially responsible company, and the year which ended with negative business results.

Being aware that we need to increase the profitability of our business, for several years back we have been improving processes which in 2009 resulted in savings in operating costs, amounting to HRK 131 million. Improvement of processes included insight in all the business processes and revealing the deficiencies of each, the result of what were the economies in the raw materials procurement process, savings in production through optimization of production processes and creating preconditions for additional savings in the processes of sales and distribution in the upcoming period.

Reorganization which occurred in late 2008 contributed significantly to savings in general and administrative costs. Business activities, managers' rights and obligations, along with costs and liabilities of every organization unit have been reviewed. We can also be satisfied with the sales realized in 2009, especially if we look at it in the context of the crisis which is reflected in significant decrease in consumption. The Group maintained its market positions on all the markets and in all the categories.

Significant realization of sales, next to realized economies, provided a good result in operating activities, but heavy impact of one-off items, deriving from various financial transactions that individual members of the former Management Board performed during their term, disrupted the reporting results. The present Management Board made a detailed analysis of all the risks deriving from actions which are currently under criminal investigation, and following their best judgement, have shown those risks in the financial reports. All legal actions have been taken to reduce the risks and collect written off debts and regarding this there are certain expectations that a part of these debts will be recovered in 2010.

A series of challenges is ahead of us. Decrease in consumption is expected to continue, especially in the Croatian market, along with the disruption of liquidity, rise in prices of power sources and further pressuring to lower the prices of food products and medicines. In order to respond to those challenges, we have prepared a series of measures to ensure the growth of profitable margins. Continued rationalization within the production processes should annul the effect of increased prices of power sources, while additional savings are expected to be achieved in the prices of production materials. Opening of the warehouse and distribution center in Dugopolje in 2009 and rationalization of logistic, distribution and sales processes should result in additional savings. Additional savings are also expected in general and administrative costs, through further optimization of organization structure and control of all the general costs. To conclude, it is important to mention that the marketing approach will significantly differ from the one applied previous years. Supporting the most significant and the most promising products on the most important markets through focused marketing investments should enable stabile organic growth of sales.

Despite of all the negative events in this last period, we would like to say that Podravka is a stabile company and that no aspect of its operating business was at any moment questionable. We would like to thank all the shareholders who have by giving their support shown they have confidence in Podravka and its employees.

Management Board President
Miroslav Vitković

PODRAVKA GROUP IN 2009

BUSINESS EVENTS

Podravka purchased Belsad brand
Podravka and Droga Kolinska signed the Contract on sales of Belsad brand. According to this contract, Podravka becomes the owner of this brand of fruit spreads. Purchasing Belsad Podravka expands its assortment of fruit products in the market of Slovenia and strengthens its market position.

Agreement between Podravka and the Ministry of family, homeland defenders and intergenerational solidarity
In January Podravka signed a contract with the Croatian Government determining three-year cooperation on purchasing products produced by cooperatives of homeland defenders for Podravka's production processes.

Podravka's company founded in Turkey
In February Podravka founded in Turkey a limited liability company Podravka International Turkey, with headquarters in Istanbul. Podravka's activities in the Turkish market are focused on expanding the distribution index and marketing activities at points of sale with the primary purpose of expanding the consumer base and promoting Vegeta among Turkish consumers.

Podravka among the most socially responsible companies in Croatia
In the first public study on identifying socially responsible behaviour and sustainable development, Podravka was listed among the most socially responsible companies in Croatia. Podravka's high ranking on the scale of social responsibility in the minds of the citizens results from years of implementing socially responsible behaviour, where Podravka pays attention to the community and environment protection in its business activities.

Tomato products received "Product of the year" award in Poland
Podravka's chopped and peeled tomatoes received "Produkt Roku 2009" award in the Polish market. This award once again confirms the status of the most selling product in the category and the recognizability of Podravka brand in the market of Poland.

Studena with Blanka
After eight years of successful cooperation, a new sponsorship contract was signed with Blanka Vlašić in March. With this new contract, Podravka, i.e. its brand Studena will in the following period support Blanka in her new sport achievements.

Fourth year in the row Studena title sponsor to "ATP Studena Croatia Open Umag" tournament
Sponsorship contract was signed in April by Management Boards presidents of Podravka and Istraturist and ATP tournament director. In spite of difficult economic situation, as the main sponsor of this event Podravka was present with its products and programs, additionally enriching this tournament.

New warehousing and distribution center opened in Dugopolje
Until April Podravka distributed its products to Dalmatia from eight different warehouses for individual product ranges, and building this distribution center in Dugopolje will make delivery to the consumers certainly more efficient, as all distribution will be controlled from one center. Dugopolje distribution center, with the size of 6,000 square meters, is the first in the row of Podravka's distribution centers that Podravka intends to build in Croatia.

Vegeta celebrated its 50th birthday
Podravka's most famous brand Vegeta celebrated in May its 50th birthday. For the occasion the packaging was innovated and Vegeta was sold in its golden edition, and the special episode of "Little secrets of great chiefs of cuisine" was also filmed. Leader of the team particularly responsible for creating Vegeta, prof. Zlata Bartl, on 16 May 1959 signed the recipe according to which the first quantities were produced.

Improm and Podravka sign a contract
Podravka and Improm in bancruptcy closed a contract on giving licence for Gušti brand to Podravka and an agreement was signed on service production of this brand in the facilities of Improm in bancruptcy.

Vegeta received "Hit FMCG" in Poland
Merchants magazine "Życie handlowe" in Poland in the category of all-purpose seasonings awarded the first place to Vegeta, and Podravka's brand Warzywko took the second position.

Vegeta offered in the stores of Cyprus
Among the many activities to celebrate Vegeta's 50th anniversary in May, the sales team from Turkey successfully introduced Vegeta in the stores of Cyprus as well.

Podravka and Istraturist partners in rebranding Umag
The purpose of this important project is to show Umag as a desirable and recognizable place for a holiday, recreation and fun. The idea is for Umag to become a destination where everyone can find something created just for them, and the new slogan of the town was also presented - Umag: "1st point of Istria".

“Always with a heart” Foundation founded
Podravka presented in July “Always with the heart“ Foundation, aiming to provide assistance to homeland defenders who are workers of Podravka and to their families. The Foundation will promote social security and work on improvement of economic and material status of its members.

General Assembly of Podravka shareholders held
At the General Assembly of Podravka d.d. shareholders, held on 22 July 2009 in Koprivnica, a resolution was passed on purchasing own shares, and discharge was given to the members of the Management Board of Podravka d.d. approving their management of Podravka d.d. Company in 2008.
Discharge was also given to the members of the Supervisory Board of Podravka d.d. by which their duties and supervision over managing business operations of Podravka d.d. in 2008 have been approved. For the four year term the General Assembly appointed a new member to the Supervisory Board, dr. Darko Tipurić in place of Damir Felak, who resigned from the position of Supervisory Board member in late 2008.
Financial statements of the parent company Podravka and its affiliated (subsidiary) companies, along with consolidated financial statements of the Podravka Group will be audited by the authorised auditor Deloitte d.o.o.

Podravka’s products received international Superior Taste Award
Podravka’s Plum Jam and Sardines in Olive Oil received the Superior Taste Award for excellent taste and high product quality, awarded by the International Taste & Quality Institute, Brussels.

Cooperation with Gastro grupa
Podravka and Gastro grupa expanded their existing cooperation on distribution of Podravka’s non-alcoholic beverages in the HoReCa distribution channel also on the project of Lero instant beverages.

Resignation by the Supervisory Board president Darko Marinac
Supervisory Board President Darko Marinac resigned in September from the duties of president and member of the Supervisory Board of Podravka d.d.

Activities of minimizing risk
Podravka d.d. took the necessary actions in order to minimise risk for credits given to SMS d.o.o., amounting to HRK 65 million, and as agreed with other credits Podravka started creating a plan for recovery and restructuring of SMS d.o.o.

Joint business of Deltis Pharm and Pharma Net
Belupo’s health institution Deltis Pharm d.o.o. entered in wholesale business, joining Pharma Net, a network of drugstores uniting about a hundred drugstore units.

Golden Marten by the HGK County Chamber of Economy Koprivnica
HGK (Croatian Chamber of Economy) County Chamber of Economy Koprivnica awarded in September the certificate Golden Marten for the companies in Podravina and Prigorje. In the category of large companies Podravka was also awarded.

10th anniversary of SAP celebrated in Podravka
Ceremonious conference on 10 years of successful usage of SAP – business information system – was held at Podravka. The conference was organized by SAP d.o.o., b4b d.o.o. and Podravka as the host and also one of the oldest users of SAP in the region.

Stimulating severance payments paid
During October and November 2009 Podravka d.d. cancelled 153 work contracts compliant to the Provision program with stimulating severance payments. In 2009 Podravka d.d. cancelled 257 work contracts from both business and personal reasons, all with the purpose of rationalizing expenses and optimizing business processes.

Supervisory Board members recalled
Croatian Privatization Fond reached on 14 October 2009 the decision on recall of Franjo Maletić and Boris Hmelina, Supervisory Board members and appointed Miljenko Javorović and Ljubo Jurčić in the Supervisory Board of Podravka d.d.

Podravka among companies of special government interest
At the session held on 22 October 2009 the Government of Croatia included Podravka d.d. on the list of companies of special government interest. The government portfolio contained at that moment 20.46% shares of Podravka d.d.

Supervisory Board resolutions
At the session held on 23 October 2009, the Supervisory Board of Podravka reached a decision on increasing the number of Management Board members from five to seven members. Next to the existing, newly appointed members of the Management Board are Lidija Kljajić and Krunoslav Beširv. At the same session, compliant to Article 261 of the Company Law, Branko Vuljak, Supervisory Board member was appointed deputy member in the Management Board.

At the session held on 18 November 2009, the Supervisory Board of Podravka reached a decision on electing Ljubo Jurčić as Podravka d.d. Supervisory Board president. At the same session the Supervisory Board also decided to recall the Management Board president Zdravko Šestak and Board members Josip Pavlović and Saša Romac. The Supervisory

Board reached a decision on reappointing Branko Vuljak as Management Board deputy member, and other members were confirmed their term till 31 May 2010.

At the session held on 21 December 2009, the Supervisory Board appointed Miroslav Vitković as Management Board president and consented to Management Board's Business plan for 2010.

The Supervisory and the Management Boards of Podravka d.d. reached a decision on reviving the olive oil and olives production under SMS brand.

Vegeta and Lino are Trusted Brands in Croatia in 2009
On awarding Trusted Brands Croatia in 2009, in the Spices category this award was given to Vegeta, while Podravka's brand Lino was awarded in the Baby Food category. In the category of pain killers, this award was given to Belupo brand Neofen. The research was conducted by the Mediana Fides agency, supported by the Croatian Chamber of Economy.

PODRAVKA GROUP RESEARCH AND DEVELOPMENT

Product development at Podravka includes 15 specialist departments and offices covering the most important technological and business areas in food industry: food seasonings, soups and semi-ready meals, baby food, breakfast cereals and sweet spreads, sweets, vegetable and condiments, fruit and teas, mill and baking products, snacks, beverages, frozen products, meat and meat products, fish, raw base, sensoring and nutritionism and technology development. Basic activities of these departments are focused on development of new products and advancement of the existing ones.

Product development department participates in devising products, from the initial idea, through building product proposal, test production to final product design, compliant to market demands and applicable legislature. But development work does not end here; it continues through tracking the product throughout its life span. Except for developing products in development units, production and control processes are constantly being improved. It is with particular attention that we track the development of science in food industry, in technology and consumer trends, and the products are constantly synchronised with current awareness on regular and healthy diet.

We pay special attention to information contained on product declarations, product design, their organoleptic quality, nutritive and other features. The activities are taking place in close cooperation with other departments within the company, but the cooperation with leading experts and institutions outside Podravka is also not ignored.

All stated is performed in order to achieve a higher level of consumer satisfaction with Podravka's products and to ensure their leading position. One of the indicators of company's commitment and engagement on described development area is also opening of the new central semi-industrial laboratory in February 2008. This event was long expected by all the workers at Product development eager to gain more knowledge and new experiences. Opening of this laboratory enabled ideas of the people at the Product development and outside it to become real and tangible products. This was proven in 2009 when a vast number of new and innovated products was launched as a result of constant and hard work at this laboratory. The laboratory enables fast determination of technological and economic feasibility of ideas and an easy transition of ideas into concepts and new products. All stated enables creating new opportunities necessary for company's advancement and growth.

Belupo develops, perfects and produces prescription medicines (prescription and over-the-counter products), dietetic products and medical cosmetic products. Development tasks are performed in the new modern pilot-laboratory built according to the good manufacturing practice, and the quality and stability of the development products are tested in the laboratories having state-of-the-art analysis equipment. Quality of work on developing new products received in 2009 an international verification, as Belupo successfully passed a GMP inspection by an European regulatory entity and a member of PIC/S for development segment.

In 2009 Belupo launched to the market 10 new brands and 2 extensions of the existing brands, which enriched Belupo's portfolio with 8 new pharmaceutically active substances in 19 different doses and 23 different package sizes. Of 19 new doses, 15 are new prescription medicines, one over-the-counter and 3 new dietetic products. The majority of products are those having effect on blood and blood forming organs, cardio- vascular system, nervous system, respiratory system, digestion, bones, muscular system and skin.

NEW PRODUCTS

New Eva canned fish

Eva canned fish is prepared from the best parts of the fish, rich in minerals, complete proteins containing essential amino acids, polyunsaturated fatty acids (especially omega-3 fatty acids). New Eva canned fish launched early in 2009 to foreign markets are: **Eva Mackerel fillets in vegetable oil, Eva Mackerel fillets in tomato sauce, Eva herring fillets in vegetable oil, Eva herring fillets in tomato sauce, Eva sprats in vegetable oil and Eva sprats in tomato sauce.**

Muffins, Chocolate Muffins and Brownies

New products Muffins, Chocolate Muffins and Brownies are intended for young busy women who do not have much time on their hands and want to serve their families a sweet and delicious desert. A package of Muffins and Chocolate Muffins contains a dough mixture, chocolate stars and paper cups and it suffices for 12 muffins, while a package of Brownies contains a mixture for the chocolate cake and it suffices for 16 cakes, and it can also be used as a cream cake base.

Pudding Maxi Vanilla and Pudding Maxi Chocolate

The magical world of Dolcela puddings presented new maxi packagings of two favourite flavours: vanilla and chocolate. These packaging are intended for big families preparing large quantities of pudding at once, and they are particularly convenient when preparing cakes.

Lero Apple nectar

Clear fruit nectar is produced by diluting concentrated apple juice with added sugars and citric acid. Enriched with vitamin C.

Green bean and beef stew

This new quality canned ready-made meal only needs heating up at an appropriate temperature before serving. Common bead stew with meat contains carefully selected vegetables and high quality meat in sauce based on the traditional recipe, without any additives. Common bead stew with meat is a durable product.

Goulash with potato

Goulash with potato is a canned ready-made meal that contains high quality beef meat and potato in sauce based on the traditional recipe with carefully selected seasonings. For all of those that love the taste and aroma of traditional cuisine.

Cobanac

New canned ready-made meal that contains high quality meat (beef and pork) in piquant sauce, predominant with taste and spicyness of red paprika.

New meat based sauces

High portion of vegetables and high quality meat in sauce based on the traditional recipe with carefully selected seasoning make this new meat based sauces stand out in their product group. All ingredients used in new products guarantee the taste and aroma of traditional cuisine. Perfectly balanced ratio of tomato and meat in Meat Sauce with Tomato make it an ideal sauce for all kinds of pasta. Beef Sauce with Red Wine is for all of those that enjoy great meal. A well known combination of beef, pancetta and red wine is enriched with carefully selected seasoning, like basilica and oregano – giving this sauce its unique, piquant flavour.

New Belsad marmalades

In March Podravka has introduced on Slovenian market a new range of home-made marmalades under the brand Belsad: Apricot marmalade, Mixed fruit marmalade, Plum marmalade and a range of various marmalade spreads: apricot, forest fruits, cherry, rosehip, strawberry, mixed fruit and plum.

Eva tuna salads

Eva tuna salads are expanded with two new flavours: Tuna salad Mediterana and Tuna salad Dalmatina. Eva tuna salads can now be found in the new design – the packaging is in recognizable blue colour, characteristic for the range of Eva fish products. New Eva tuna salads contain exclusively natural ingredients, they are a source of omega-3 fatty acids and proteins and made from various vegetables and pieces of tuna.

Lerovita

Instant drink Lerovita with rich orange, lemon or cranberry flavouring in 15 g and 300 g packaging is a refreshing drink. One glass of drink prepared from 15 g of instant grains dissolved in 200 ml water, meets 50% of daily recommended allowances for added vitamins.

Lero Apricot and apple nectar

Thick pulpy fruit nectar is produced by mixing concentrated apricot puree and concentrated apple juice with added sugars and citric acid.

Kviki gric paprika
Kviki gric paprika is a ready made product for immediate consumption, salty fried snack with paprika taste. This crunchy snack is unique in the market.

Vegetable sauce with chicken meat
Recognizable taste of chicken and carefully selected vegetables like tomatoes, carrots, potatoes and common beans are combined with refreshing taste of thyme and clove. All ingredients make this mild sauce an excellent choice.

New ice-cream flavours for wholesale
A range of ice-cream flavours for wholesale distributed in 4.5L packaging is enriched with new flavours: vanilla with vanilla topping, banana-split, chocolate + čokolino spread, strawberry with strawberry pieces, lemon with lemon topping and schwarzwald.

Podravka family ice-cream in containers
Assortment of Podravka family ice-cream in 1L containers is enriched with two new flavours: stracciatella-cranberries is a combination of milky and fruity aroma with soft and creamy texture. Biscuits-chocolate-apricot is a perfect combination of aroma, smell and colour.

New Lero products
Lero juices in 0.5L and 1.5L packaging are available in several new tastes. **Lero multired ABCE** is refreshing non-alcoholic beverage produced from lemon, orange, grape, apple, blackberries, raspberries, cherry, red orange, blueberries, blackberries and elderberry juice, enriched with vitamins A, B, C and E. **Lero Orange-mango** is a refreshing non-alcoholic beverage produced from orange and mango juice, enriched with vitamins A, C and E. **Lero cherry-apple** is refreshing non-alcoholic beverage produced from cherry and apple juice. New Lero nectars in 0.2L glass are also available. **Lero strawberry nectar** is fruit nectar produced by diluting concentrated pulpy strawberry and grape juice, without preservatives, pasteurised, fruit juice content minimum 45%. **Lero cherry nectar** is fruit nectar produced by diluting concentrated pulpy cherry juice, without preservatives, pasteurised, fruit juice content minimum 50%. **Lero blueberry nectar** is fruit nectar produced by diluting concentrated pulpy huckleberry juice, without preservatives, pasteurised, fruit juice content minimum 45%.

Fant mix for spaghetti carbonara
Spaghetti carbonara is a renowned Roman meal consisting of a fine milky sauce and pasta (spaghetti). Ingredients such as bacon, cheese, eggs and cream make this sauce characteristic.

Fant mix for spaghetti bolognese
Using Fant mix for spaghetti bolognese you can prepare a delicious and fast meal. Carefully selected seasonings, dried tomato and other ingredients make the taste full, and adding meat and pasta makes this meal complete.

Fant mix for pasta with chicken and mushrooms
A combination of seasonings and other ingredients, next to added chicken and mushrooms provides your meal with an irresistible taste and your personal stamp. With Fant mix for pasta with chicken and mushrooms you can have a light lunch that is easy to prepare.

New flavoured Studena
Studena flavoured water is based on Studena pure spring water. Studena flavoured water is the perfect refreshment, because it combines the crystal lightness of spring water with a full fruit flavour. New types of flavoured water Studena are cranberry-acai berry and pear-apple Sport.

Neofen direkt
Neofen direkt pills are non-steroid anti-inflammatory agent with analgesic and antipyretic effect. Neofen direkt pills, strawberry flavoured and soluble, need not be taken with liquid. New, innovative technology enables rapid effects, and gastro-resistant layer protects direct contact of active ingredients with stomach epithelia, so the pill can be taken on empty stomach. Pills are especially convenient on road trips, at work or any other situation when no liquid is available for taking the medicine.

Family ice-cream in cups
Podravka family ice-cream in cups are enriched with new flavours: banana-split, schwarzwald and čokolino chocolate&milk.

Warzywko Dried Vegetables and Warzywko Dried Red Beet
Innovation in family of universal food seasoning Warzywko are flavours: Dried Vegetables and Dried Red Beet. Ingredients contained are completely natural.

Tuna pieces in vegetable oil
Eva's treasury of healthy and tasty products has one more product: Tuna small pieces in vegetable oil. Use Eva Tuna fish to prepare healthy and well-balanced meals: delicious sandwiches, fillings for pasta, salads, pizza and many other imaginative dishes or simply serve as a tasty individual meal.

Podravka marmalades and jams in new edition
Podravka long-lasting products, produced since 1947 – marmalades and jams – got the redesign of existing packaging. Deliciously juicy products from sunny orchards are now coming to the table hidden in new, modern shaped, elegant, glass jars.

Čokolino drink
Čokolino drink is an instant cacao drink of chocolate aroma, enriched with vitamins and calcium, practical, simple and easy to make.

Diabetil
Diabetil capsules help regulate blood glucose level. Diabetil is for persons with mildly and moderately elevated blood glucose level in combination with recommended diet and change of lifestyle. Diabetil can also be used by patients diagnosed with Type 2 diabetes who are not receiving any other diabetes therapy. Under supervision of a physician, it can be used with oral anti-diabetics drugs.

Omegatenzin
Omegatenzin capsules contain especially high concentration of omega-3 fatty acids (65%) that human body cannot synthesize, so they must be taken in by food or food supplements. Omega-3 fatty acids are essential for growth, development and normal function of human body. Omegatenzin is recommended for persons who want to preserve healthy heart and blood vessels, and are primarily intended for people with high blood pressure and high cholesterol levels

Hederan
Hederan is a herbal syrup with ivy leaf base that calms the cough and helps expectorate bronchial slime which makes breathing heavy. The syrup is used for all types of cough for calming and expectorating, especially for difficulties with epithelial tissue of respiratory passage and acute and chronic bronchitis and with bronchitis accompanied by muscle cramps.

New breads – Corn bread and Brown bread
Corn bread has high percentage of corn flour that makes the bread aroma richer and fuller, but also extends its freshness. The soft, inner part of the bread is yellow, equally spongy, and the crust crunchy. Brown bread is made of whole wheat flour with lots of nutritive advantages. A rich recipe provides a complete aroma compared with standard wholemeal bread.

Dried fig orange jam extra
Dried fig, a candy, is turned into another delicacy, a jam with high fruit content. It is produced in harmonious taste of dried fig and orange.

Apricots in syrup
Apricots in syrup contain apricot halves in sweet syrup, prepared from high-quality, fresh and firm fruit. You can serve these tasty and refreshing desserts well chilled, in small bowls, and decorated with whipped cream.

New Fant mixes
Fant mix for refried beans will make refried beans a simple, fast meal of unforgettable taste. **Fant mix for roasted potato** contains all the ingredients necessary to make this meal impeccable. Irresistible mix of long selected spices and vegetables will turn a simple dish into a meal that will win even the most demanding potato lovers. **Fant mix for hake à la cod** contains carefully selected combination of vegetables and spices enabling fast and simple preparation of a very tasty meal. **Fant mix for meat balls** contains everything but meat to prepare the delicious meat balls. **Fant mix for turkey with zucchini** is an ideal base to prepare this light, healthy and delicious meal. **Fant for gratin** is for all types of baked vegetables.

Vegeta sweet paprika
Vegeta sweet paprika mix is a new product for Slovenian market, completely balanced cocking aid. It contains red paprika and other seasoning. Vegeta sweet paprika mix will enrich every meal, especially stews, paprikash, meat and fish meals, meat marinades, sauces and grilled meals.

Homemade cracklings, black pudding, headcheese and lard

All these products are innovated in recipe and procedure to share traditional spirit and are produced like our ancestors did it. All products are in new, red-white checked packaging to suit the traditional atmosphere of Croatian continental cuisine.

Vegeta Natur

Vegeta Natur is a new, completely natural food seasoning with nine types of vegetable. For one packaging of Vegeta Natur 450 g of fresh vegetables was used. The product contains no flavour enhancers, aromas or artificial colours.

Vegeta - new glass dispenser

Exclusive packaging in the Vegeta portfolio is the new glass dispenser for 400 g of this renowned universal food seasoning. You will easily recognize Vegeta in glass dispenser on the shelves because it retained its blue colour, the vegetables and the chef. With this new packaging Podravka rewards half a century of consumers' trust and fidelity.

Vegeta spring

Vegeta spring, developed for foreign markets is universal food seasoning with dill.

Kviki peanuts

Peeled, fried, salty Kviki peanuts are a product of Podravka's high standard quality, in an attractive modern packaging, intended for all age groups. Kviki peanuts guarantee its consumers a crunchy delight.

Chicken goulash

Chicken paprikash is produced without additives, from high quality mixed chicken meat, in fresh red paprika sauce, seasoned with delicates and spicy kinds of paprika. Practical packaging with easy-open lid enables fast and simple preparation of chicken paprikash as a meal on its own or with added side dishes.

Delicacy gherkins – cubes

This is a true delicacy - cubed gherkins. This new, attractive product will bring joy to many gourmands. Crunchy, delicious, hard, of recognizable taste of Podravka's gherkins, they are appropriate for variety of applications. They will give a special taste to cold and warm sauces, toppings and salad. They can be consumed throughout the year.

Peppers stuffed with cabbage

Peppers stuffed with cabbage is a product whose combination of colour, taste and aroma thrills all the lovers of vegetable specialties. It's interesting appearance, mildly salty and of rich taste is the best combination of vitamin C. It can be consumed throughout the year, but is ideal for winter days.

Podravka potato puree

At the end of the year new Podravka dishes were introduced on foreign markets: Potato puree, Potato puree with milk and Potato puree with onion. All products are from the group of dehydrated semi-ready meals. Besides making an excellent side dish, they can also be used in the preparation of soufflés, croquettes, for thickening stews, or as a complement to minced meat when preparing meat patties.

SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

PODRAVKA D.D. SUPERVISORY BOARD MEMBERS BIOGRAPHIES

Ljubo Jurčić
Supervisory Board President (since 14 October 2009)
Mr. Jurčić was born in Ružići, B&H, in 1954. He graduated from the Foreign Trade Faculty in Zagreb in 1981, and received his Master's degree in 1985 from the Faculty of Economy and Business in Zagreb. From that same Faculty he received his PhD in economic sciences in 1997. Having graduated, he finds his employment at Tvornica elektrotehničkih proizvoda Zagreb, performing tasks relative to foreign trade (from office clerk to head of the export department). In 1986 he is employed at Progres, a company for research and development services and consulting in Zagreb as the foreign trade adviser. At Tvornica elektrotehničkih proizvoda in 1987 he becomes the foreign trade director. Since 1986 he is employed at the Faculty of Economy and Business in Zagreb as a part-time assistant, and became full time employee in 1990. He published numerous scientific and expert works, lectured at many expert lectures and is the editor of "Ekonomist" magazine. He is a member of several professional associations (European Economic Association, International Economics and Finance Society, International Input-Output Association, New York Academy of Sciences, American Management Association). He was elected to the Supervisory Board of Podravka on 14 October 2009, and became its president on 18 November 2009.

Darko Marinac
Supervisory Board President (till 14 September 2009)
Darko Marinac was born in Zagreb in 1950. In 1973 he graduated from the Faculty of Engineering, University of Zagreb. In 1975 he started working in Pliva. Since 1990 to 1992 he was head of R&D at Pliva. He established and managed Pliva's companies in Ukraine, Czech Republic and Slovakia. Since 1996 to 1999 he was Vice-President of Pliva Management Board. Since April 2000 he is the President of Podravka Management Board. He has been a member of numerous councils, associations and boards, including several supervisory boards of Croatian and foreign companies. He was President and founder of the Croatian Business Council for Sustainable Development and Executive Vice-President of EGA (the European Generic Medicine Association) and president to the Executive Board for the Croatian Employers Association since 2004 till 2005. From 2001 he is a member of the Board of National Competitiveness Council of Croatia and from 2005 he is the President of that Board. He received several awards for his achievements in management and entrepreneurship, and was decorated by the President of the Republic of Croatia for his contribution to the development of the Croatian economy. On 14 September 2009 he reigned to the position of Podravka Supervisory Board president and member.

Ksenija Horvat
Supervisory Board Deputy President
Ms. Ksenija Horvat was born in 1966 in Koprivnica where she finished secondary commercial school in 1984 and since then has been employed in Podravka d.d. as officer in the claim settlement department. In 2000 she graduated from two year post-graduate studies of economy at the Faculty of Economy in Zagreb and was appointed purchasing officer in retail for the Croatian market. Since 2005 she has been studying journalism part time at the Faculty of Political Science. In the academic year 2000/2001 she completed the course of SSSH (Independent Trade Union of Croatia) Centre for Industrial Dialogue. In April 2001 Ms. Horvat was appointed head union representative of the PPDIV Union of Podravka d.d. and in July the same year, coordinator of the PPDIV Union for the Podravka Group, which position she also holds in the new term of office after the last elections in 2003. Since Employee Council elections in 2005, she is deputy president of the Employee Council of Podravka d.d. the president of this body is from August 2009 till February 2010, when she is again its deputy president. She has been performing the function of Supervisory Board Deputy President since July 2008.

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

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

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

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

Darko Tipurić
Supervisory Board Member (since 22 July 2009)
Mr. Tipurić was born in 1966 in Sarajevo. He graduated from the Faculty of Economy in Sarajevo in 1989. He received his Master's degree from the postgraduate study of Business Economy at the Faculty of Economy in Sarajevo in 1991, defending his Master's thesis "Phenomenon of marketing and marketing science". In 1993 he defended his doctor's dissertation "Interorganizational relations in marketing channels" at the Faculty of Economy and Business in Zagreb. In 1991 he attended specialized training in organizational behaviour in Vienna (Wirtschaftuniversität and University of Kentucky). Since February 1993 he is employed at the Faculty of Economy and Business in Zagreb, Organization and Management department, first as an assistant. Over the years he is senior assistant, then is elected educational and scientific vocation of senior lecturer, then associate professor and then full time professor. In the period of 2002 – 2004 he was the assistant-dean for international cooperation and economic relations, since 2004 – 2006 he was vice-dean and in the mandates 2006 – 2008 and 2008 – 2010 he was the dean of the Faculty of Economy and Business in Zagreb. He is a member of several international professional and scientific associations, a member of the main board of Croatian Association of Economists and honorary President of the Croatian Association of Certified Supervisory Board Members.

Miljenko Javorović
Supervisory Board Member (since 14 October 2009)
Miljenko Javorović was born in 1962. He graduated from the Faculty of Economy and Business at the Zagreb University, Finance and banking course, received his MA from the Law Faculty at the Zagreb University at the postgraduate study "Fiscal system and fiscal politics". He is perfecting his knowledge at various courses and educations: Professional course in Evaluation of annual accounts and IBM Training Center. In 1989 he becomes authorised auditor, in 2000 authorised agent and authorised insurance representative, and in 2007 authorised tax adviser. He is starting his career at Služba društvenog knjigovodstva as senior counselor for business inspections and legal person control. From 1993 to 2000 he is the Management Board President of Invest consult d.o.o. From 2000 to 2006 he is the Management Board President of Libertas osiguranje d.d., and since 2006 he holds the position of Management Board President of Hrvatsko mirovinsko investicijsko društvo d.o.o.He lectures at numerous seminars in accounting, auditing, finance and insurance. He is the head of numerous seminars for financial inspectors and auditors and head and lecturer at seminars for tax regulations. He is also editor in chief for the "Novosti" magazine published by Libertas osiguranje d.d. He published many scientific and professional works.

Boris Hmelina
Supervisory Board Member (till 14 October 2009)
Mr. Hmelina was born in 1945 in Zagreb where he completed his primary and secondary school. He graduated from the Faculty of Economy and Business, University of Zagreb. In March 2000 he passed the state examination for bankruptcy commissioner at the Ministry of Justice, Public Administration and Local Self-government. From 1970 till 1975 he was assistant director of the General Affairs and Human Resources Department at the company "Nikola Tesla" Zagreb and until 1977 head of the General Affairs and Human Resources Department of UP Borongaj. From 1977 till 1979 Mr. Hmelina was commercial director at the Freshwater Fishing Board of Yugoslavia and from 1979 till 1988 director of the agency Naftagas-promet Novi Sad for Croatia, Slovenia and Bosnia and Herzegovina. During the period from 1988 till 1991, Mr. Hmelina was commercial director at CHROMOS, factory for synthetic resin, Zagreb where from 1991 till 1997 he performed the duties of president of the Management Board. Since 2002 he has been bankruptcy commissioner of many trade companies and in the year 2003 founded (and became director) Hmelina and Associates, a public trade company for performing bankruptcy commissioning services. As decided by the Croatian Privatization Fund, on 14 October 2009 he was recalled from the position of Podravka Supervisory Board member.

Franjo Maletić

Supervisory Board Member (till 14 October 2009)

Mr. Franjo Maletić was born in 1951 in Ferdinandovac, Municipality of Đurđevac. He graduated at the Faculty of Law in Zagreb and from 1972 till 1983 he worked for Sloga Export Import. He was director at JAT (Yugoslav Airlines), from 1983 till 1987 of JAT Zagreb and from 1987 till 1991 JAT Canada. During the period from 1991 till 1993 Mr. Maletić was director of INA TOURS, from 1993 till 2000 director of Golden Marketing and from 2000 till 2001 assistant director of Večernji list. Till 2006 he was the president of the Management Board of Vjesnik d.d. As decided by the Croatian Privatization Fund, on 14 October 2009 he was recalled from the position of Podravka Supervisory Board member.

Branko Vuljak

Supervisory Board Member (term on suspension since 23 October 2009)

Branko Vuljak was born 28 August 1955 in Đelekovec. He graduated from Koprivnica high-school, and in 1981 he received his bachelor's degree from the FER Faculty of Electrical Engineering in Zagreb. Afterwards he completes General Management Program at IEDC Bled School of Management, Podravka's Management Academy, Leeds Metropolitan University and University of Cambridge (BEC Vantage). He is employed at Podravka in 1981 as an engineer at the computer center, in 1996 was appointed director of that department and in 1997 is transferred to the Procurement department where he works to this day as Central Procurement Sector director. His term as the Supervisory Board member has been suspended since 23 October 2009.

Damir Kovačić

Supervisory Board Member (till 21 December 2009)

Mr. Kovačić was born in 1965 in Sisak. He has a PhD in Biotechnical sciences, agronomy, agrarian economics field, at the Faculty of Agronomy in Zagreb. Since 3rd December 1990 he works as a non-regular professor at the Faculty of Agriculture at Zagreb University, Institute of Agricultural Marketing. He participated in many development and research projects. He is the head of the Institute of agricultural agricultural marketing, head of the Village, Agriculture and Food Board of the Professional Council of the Croatian Peasant Party (HSS), President of the Croatian Society of Agro-economists (one term), Vice-president of the Croatian Society of Agro-economists (two terms), Member of the Parliament's Committee for Agriculture and Forestry as representative of scientific, professional and public workers (2002 - 2003) and the member of the Croatian Society of Agro-economists. He resigned to the position of Podravka Supervisory Board member on 21 November 2009.

PODRAVKA D.D. MANAGEMENT BOARD MEMBERS BIOGRAPHIES

Miroslav Vitković

Management Board President (since 21 December 2009)

Mr. Vitković was born in 1967 in Koprivnica. He graduated from the Faculty of Food Technology in 1992. He finished the IEDC Bled School of Management and attended many professional seminars. After completing his studies, he started his employment with Podravka, where he has been working ever since. At Podravka Mr. Vitković performed the duties of import officer, sales director of Podravka International - Prague, and sales director of Podravka International - Bratislava. Since 2001 he was executive director for the markets of Croatia and South-East Europe. Since 2003 till 2008 Mr. Vitković has been performing the duties of Podravka Management Board member in charge of Croatian market, and in July 2008 he becomes Deputy President of Podravka's Management Board. He is appointed Podravka Management Board President on 21 December 2009.

Zdravko Šestak

Management Board President (till 18 November 2009)

Mr. Šestak was born in 1968 in Koprivnica. In the year 1992 he graduated from the Faculty of Electrical Engineering at University of Zagreb. Among many seminars he also finished IEDC Bled School of Management and acquired the Professional Diploma in Retailing Management studies at the Leeds Metropolitan University. He started his employment with Podravka in 1993 as system engineer in Podravka's electronic data processing centre. He continued in Research and Development on implementing the information system. From 1998 till 2000 Mr. Šestak worked as assistant director of the project for constructing and establishing the new business-information system at the Podravka Group. Apart from working on this project, from 1997 till 2001, he acted as assistant director of the Information Technology Department. Subsequently, he was transferred to the position of Business Intelligence director in the Business Development Sector. From 2002 till 2004 Mr. Šestak was the executive director of the Efficiency project and head of the project for the reorganisation and transformation of the Podravka Group. He was appointed director of the Information Technology Sector and Business Surveillance Sector in mid 2004. Since 2005 Mr. Šestak was performing the duties of Podravka Management Board member, and as of 22 July 2008 he is acting as Management Board President. He is recalled from this position on 18 November 2009, as decided by the Supervisory Board.

Marin Pucar

Member of the Board

Mr. Pucar was born in 1970 in Zadar. He graduated from the Faculty of Economy and Business, Zagreb University. In addition to many educational programs and courses, he acquired a Professional Diploma in Retailing Management at the Leeds Metropolitan University and he attended Podravka's Management Academy POMAK. Having finished his studies, Mr. Pucar got his first job at Gavrilović meat industry where he was engaged in various working positions: from salesman, product manager to brand manager. He found his employment at Podravka in 2001 as the Sales Director at

Podravka's Meat Industry Danica. After that he became the Director of Sales, Marketing and Development. In early 2003 he was appointed director of Meat Program for Croatia and Southeast Europe, and in late 2003 he became a Sales Executive for Croatian Market. He retained this job until July 2008, when he was appointed member of Podravka's Management Board.

Josip Pavlović
Member of the Board (till 18 November 2009)
Mr. Pavlović was born in 1977 in Koprivnica. He graduated from the Faculty of Economy and Business in Zagreb in 1999. He was employed at PODRAVKA d.d. that same year as a planer and controller, and since 2001 he is working as resources procurement manager. Since 2002 to 2003 he worked as a director in loans management, and since 2003 he is the director of the Treasury Sector. In 2008 he becomes a member of Podravka Management Board. He is recalled from this position on 18 November 2009, as decided by the Supervisory Board.

Saša Romac
Member of the Board (till 18 November 2009)
Mr. Romac was born in 1968 in Zagreb. In 1994 he graduated from the Faculty of Food Technology at University of Zagreb. He completed the course for business administration and management at the University of Minnesota Minneapolis. After completing his studies he found employment at Chromos boje i lakovi d.d. in Zagreb where among other jobs he worked as commercial representative for Chromos in Moscow. From 1996 till 1997 Mr. Romac worked for Herbos d.d. Sisak as director of the paints and veneering production program. Subsequently he found employment with KUK GmbH Reid Austria where until the year 2002 he occupied the position of director of the branch office for Croatia, Bosnia and Herzegovina and Slovenia with headquarters in Zagreb. He is employed at Podravka in 2002 as executive director for the Nestle program and commercial goods and in 2004 takes over the duties of director of the Commercial Partnership Management Sector. Since 2005 Mr. Romac has been performing the duties of a member of Podravka Management Board until he is recalled on 18 November 2009, as decided by the Supervisory Board.

Lidija Kljajić
Member of the Board (since 23 October 2009)
Lidija Kljajić was born in 1972 in Bjelovar. She graduated from the Faculty of Economy and Business at the Zagreb University, Finance and Accounting course. Over her career she attended series of seminar and professional educations in the area of finance and participated at Young Executive Program by Carlsberg. She graduated from POMAK (Podravka Managers Academy, Fundamental Business Administration and Leader programs) and from Leeds Metropolitan University (Retailing Management program, Professional diploma). She starts her career as an accounting officer at the local trading company in Đurđevac and continues as an independent officer at the Foreign Currency sector at Podravka banka. In 1999 she becomes Treasury director at Panonska pivovara d.o.o. today's Carlsberg Croatia Brewery. In 2001 she is employed at Podravka as director for Financing in local currency, and since 2004 to 2007 she is the head of the Podravka Management Board President's Office. Except for organizing the operations within this Office, she is also in charge of the Investor Relations Office. Since 2007 she is the director of the Controlling sector at Podravka. In October 2009 she is appointed member of Podravka Management Board.

Krunoslav Bešvir
Member of the Board (since 23 October 2009)
Mr. Bešvir was born in 1973 in Šibenik. He graduated from the Faculty of Economy and Business at the Zagreb University, Foreign Trade course. Over his professional career he participated at numerous educations: organized by IEDC Slovenia: International summer school for junior managers, marketing seminars, general management program (seven modules); then POMAK (Podravka Management Academy), education program organized by Leeds Metropolitan University (Professional Diploma in Retailing Management). He is employed at Podravka in 1998 as product manager in charge of Baby food in Marketing sector. Following that position he is marketing manager for Podravka d.o.o., Sarajevo, B&H, and in 2001 he is the director of Podravka d.o.o. Belgrade, Serbia. In 2007 he is the director for the Southeast Europe markets, and in 2008 he is the director for Food business program. In October 2009 he is appointed member of Podravka Management Board.

Branko Vuljak
Management Board Deputy Member (since 23 October 2009)
Mr. Vuljak was born 28 August 1955 in Đelekovec. He graduated from Koprivnica high-school, and in 1981 he received his bachelor's degree from the FER Faculty of Electrical Engineering in Zagreb. Afterwards he completes General Management Program at IEDC Bled School of Management, Podravka's Management Academy, Leeds Metropolitan University and University of Cambridge (BEC Vantage). He is employed at Podravka in 1981 as an engineer at the computer center, in 1996 was appointed director of that department and in 1997 is transferred to the Procurement department where he works to this day as Central Procurement Sector director. His term as the Podravka Supervisory Board member was suspended as of 23 October 2009, when he is taking over the function of Management Board deputy member.

MANAGEMENT REPORT

BUSINESS RESULTS

The Podravka Group achieved sales revenue in the amount of HRK 3,587.1 million which is 2% less compared to the same period of the year 2008.

The sales of the SBA Food and beverages totaled HRK 2,829.7 million which represents a sales drop of 3%, where organic sales recorded a slightly lower drop (-1.6%). The sales drop of the SBA Food and beverages on the Croatian market (-4%) is somewhat more pronounced than on foreign markets (-2%), but, within the context of the fall of retail sales in Croatia of 15.3%[1], it can be said that the sales of the SBA Food and beverages in Croatia is successfully coping with the drop of purchasing power. The drop of sales of the SBA Food and beverages on foreign markets results from the drop of sales on the markets of both Poland and the Czech Republic. A lower level of sales on the Polish market was generated by the weakening of the Polish zloty compared to the Croatian kuna exchange rate (-18%), while at the same time the market experienced a quantity growth of 5%. The drop of sales of the SBA Food and beverages of 18% on the Czech market is primarily related to the drop of sales of Rice and pulses in the B2B segment.

The SBA Pharmaceuticals achieved sales revenue in the amount of HRK 752.7 million, which represents a 3% growth compared to the same period of the year 2008. The Croatian market suffered a 2% drop in the sales of the SBA Pharmaceuticals although at the same time there was a sales increase of non-prescription drugs and the pharmacy business through Deltis Pharm Pharmacies[2]. Prescription drugs achieved lower sales on the Croatian market than in the same period of the year 2008 generated by price adjustments on the General and Additional List of Drugs of the Croatian Institute for Health Insurance (HZZO)[3]. Although prescription drugs recorded lower sales than in the year 2008, some product groups within this group achieved a growth. According to the ATC classification[4] sales growth was recorded by drugs for respiratory system treatment (52%) and drugs for parasite caused infections treatment (1%). The most significant growth in the non-prescription product group was realized by OTC drugs (17%) due to the growth of sales of Neofen and Lupocet and higher sales in 2009 were also achieved by Dietary products (2%). The SBA Pharmaceuticals reached a sales growth of 14% on foreign markets with the highest contribution from the market of Bosnia and Herzegovina (34%) resulting from sales of the related company Farmavita d.o.o.

The SBA Services achieved sales of HRK 4.7 million in the observed period and in the total sales of the Group participates with just 0.1%[5].

Sales revenues per product groups

The sales of the BP Food suffered a drop of 2% compared to the same period of the year 2008. The sales drop of the BP Podravka dishes product group (-4%) was contributed by the drop of sales on both domestic (-3%) and foreign markets (-4%). A lower level of sales achieved on foreign markets was generated by the sales drop on the markets of Central Europe (-13%) influenced by lower sales of Rice and legumes on the Czech market. The markets of Western Europe, Overseas countries and Orient recorded a growth of 13% while the market of South-East Europe had a growth of 1%. The Baby food, sweets and snack product group achieved sales growth of 3% resulting from a higher level of sales on the markets of Bosnia and Herzegovina (10%) and Slovenia (9%). Sales of the product group Fish and fishery products grew 7% on the grounds of the sales growth on the markets of Hungary (80%), Slovenia (21%) and Bosnia and Herzegovina (6%).

The BP Food seasonings suffered a drop of sales of 2% based on the drop of sales on foreign markets (-3%), while sales on the Croatian market were on a slightly higher level than in the same period of the year 2008. The drop of sales on the market of Central Europe (-15%) was conditioned by the drop of sales on the market of Poland (-18%) due to the decreased value of the Polish zloty in the observed period. Concurrently, the sales of the BP Food seasonings recorded a growth on the markets of Western Europe, Overseas countries and Orient (10%), South-East Europe (7%) and Eastern Europe (5%).

The sales of the BP Meat was 2% lower, while at the same time an organic sales growth of 1% occurred on the grounds of the sales increase of semi-durable smoked meat and sausage products and meat sauces and cold cuts. The drop of sales of the BP Meat was recorded on the domestic market (-3%), while on foreign markets there was a 1% growth based on the sales growth in South-East Europe (7%).

The BP Beverages achieved 13% lower sales compared to the same period of the year 2008, with the greatest contribution from the Croatian market (-13%). A lower level of sales was also achieved abroad (-7%), resulting from a sales drop on the market of Bosnia and Herzegovina (-13%). Despite the sales drop of this Business program, the product group Powdery beverages gave a significant contribution to sales, while the largest drop of sales within the BP beverages was recorded by the Ice Tea product group.

1 Source: State Statistical Office, Monthly statistics report, no. 1, 2010. (data for the period 1.-12.2009)
2 Deltis Pharm pharmacies are health institutions established by Deltis Pharma d.o.o. in the ownership of Belupo for the purpose of taking over, consolidating and holding the private pharmacy business in Croatia.
3 Croatian Institute for Health Insurance
4 Anatomical Therapeutic Chemical System of Drug Classification
5 The SBA Services shall not be a part of the analysis which follows as in the total sales of the Podravka Group it accounts for just 0.1%.

Sales revenues per markets[6]

The Croatian market achieved sales in the amount of HRK 1,868.6 million which represents a sales drop of 4% compared to the same year of the year before. Lower sales resulted from the sales drop of the SBA Food and beverages (-4%), but a lower level of sales was also achieved by the SBA Pharmaceuticals (-2%).
Foreign markets realised sales in the amount of HRK 1,718.5 million which represents a growth of HRK 5.3 million compared to the same period of the year before. The largest increase of total sales was achieved on the markets of South-East Europe (9%) mostly contributed by the sales growth on the market of Bosnia and Herzegovina (15%), but a significant sales growth was also realised on the markets of Slovenia (10%) and Montenegro (9%). Sales on the markets of Central Europe dropped 13% on the grounds of the sales drop on both the markets of the Czech Republic (-17%) and Poland (-18%). Lower sales on the Czech market were mainly related to the sales drop of Rice and legumes in the B2B segment, while on the Polish market the sales drop resulted from the earlier mentioned depreciation of the Polish zloty compared to the Kuna exchange rate (-18%). The highest sales increase of Podravka brands was recorded on the markets of South-East Europe (4%), but an increase of Podravka brands was also noticed on the markets of Western Europe, Overseas countries and Orient (7%) and the markets of Eastern Europe (3%).

Structure of operating costs / expenses

Operating costs/expenses of the Group in the year 2009 totalled HRK 3,411.9 million, which represents a drop of 4% (HRK 131.7 million) and encourages the management to further reduce costs/expenses and establish better mechanisms for cost control. The drop of Costs of goods sold results from better management of raw material and material purchasing processes and more efficient management of production processes, reflecting on the reduction of both raw material costs (-4%) and labour costs (-4%). Although the growth of energy costs (20%) undermined the positive effects of the improved purchasing and production processes, the Cost of goods sold recorded a drop of 1% (HRK 32.5 million).

The Selling and distribution expenses recorded a drop of 1% (HRK 3.3 million) with the greatest contribution from the reduction of logistics and distribution costs (-7%), due to the drop of transport and warehousing costs, while the costs of sales increased by 3%, due to the growth of allowance for uncollectible accounts. Marketing costs dropped 9% (HRK 37.2 million), and a reduction was recorded in trade and ATL marketing.

With permanent cost control of administrative functions, General and administrative expenses recorded a drop of 16% (HRK 58.7 million). The largest cut in the cost structure was recorded by labour costs (-8%) as a result of reorganisation within the SBA Food and beverages at the end of 2008 for the purpose of establishing optimal organisation along with the revision of costs by each organisational unit.

Profitability of the Podravka Group

The gross margin of the Podravka Group dropped by 30bp as a result of structure changes of the Group's goods sold, respectively, the growth of the pharmacy business share and the sales of Farmavita which are characterised by a lower profit margin. The negative one-off items in the amount of HRK 388.4 million had negative effect on the Group's business results in the year 2009.

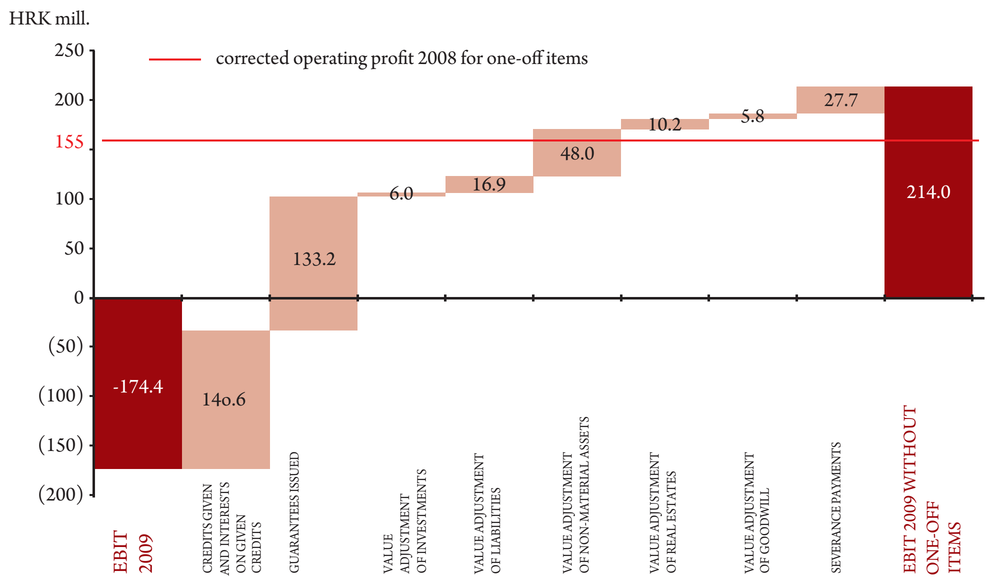
Namely, due to uncertain return, value adjustments for loans and accrued interest were made in the amount of HRK 140.7 million for loans granted to the companies SMS d.o.o., FIMA Grupa d.d and the company Gradec. These loans except the long-term loans to the company SMS d.o.o. were granted and paid out during the year 2009. Value adjustments of granted guarantees in the amount of HRK 133.2 million were also made (FIMA Grupa d.d.).

Other one-off items with negative effect on business results amounted to HRK 114.5 million covering other value adjustments of assets. Among other negative one-off items we would like to single out losses from value adjustments of investments and liabilities (HRK 22.9 million), losses from value adjustments of intangible assets (HRK 48.0 million), expenses from taking care of redundant labour (severance payments in the amount of HRK 27.7 million) and other adjustments (HRK 16.0 million).

The Group's adjusted operating profit in the year 2009 for the above mentioned one-off items totaled HRK 214.0 million which is HRK 58,6 million above the operating profit of the year 2008 disclosed in a comparable manner.
The adjusted net profit of the year 2009 amounts to HRK 100.3 million representing a growth of 141% compared to the net profit in the year 2008 disclosed in a comparable manner.

6 South-East Europe – Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Slovenia, Serbia
Central Europe – Czech Republic, Hungary, Poland, Slovakia
Western Europe, Overseas countries and Orient – Austria, Australia, Benelux, France, Canada, Germany, USA, Scandinavia, Switzerland, Great Britain and other overseas countries and Western Europe countries
Eastern Europe – Baltic countries, Romania, Russia, the Ukraine, Bulgaria and other East European countries

Operating profit of the Podravka Group without one-off items



Profitability of SBA Food & Beverages

The gross margin of the SBA Food and beverages recorded a positive shift of 70bp in the observed period. The gross margin growth results from a better allocation of the existing human resources in production processes, due to which seasonal labour employment was not necessary which also resulted in less labour costs in the Cost of goods sold structure. The program of taking care of redundant labour with stimulating severance payments, where almost one third are expenses provided for in last year's result, produced severance payment costs in the amount of HRK 35 million (35%). The corrected operating margin increased by 250bp on the grounds of a reduction of Selling and distribution expenses (-5%), Marketing costs (-13%) and a reduction of General and administrative expenses (-9%). All expenses within the structure of Selling and distribution expenses recorded a drop, except costs of allowances for uncollectible accounts (20%). The drop of General and administrative expenses was determined by positive effects of reorganisation and better control of administrative costs. The corrected net margin recorded a growth of 280bp along with a reduction of financial expenses (-18%).

Profitability of SBA Pharmaceuticals

The SBA Pharmaceuticals recorded a sales growth (3%) with a concurrent drop of gross margin, resulting from the sales share growth of Farmavita's d.o.o. production portfolio (mainly drug distribution) and Deltis Pharm d.o.o. (pharmacy business), characterised by a lower business profitability compared to the profitability of Belupo d.d. Entry into the pharmacy business and drug distribution significantly increased the purchasing value costs of goods, which influenced an increase of Cost of goods sold (15%). The Selling and distribution expenses (31%) increased in accordance with the sales structure changes with a significant effect on the drop of corrected operating margin by 190bp. A drop was recorded by General and administrative expenses (-34%) within Operating costs/expenses as a result of better cost control of administrative functions. The growth of financing expenses (37%) results from acquisition activities from the previous period which partly effected a drop of corrected net profit (-29%) and corrected net margin by 320bp, respectively. After gaining a share in the company Farmavita and pharmacies, a cycle of additional investments in Farmavita started (purchasing of plant and equipment, introduction of SAP) for the purpose of transferring technology and expanding the production program. Primary and secondary production is planned for the market of Bosnia and Herzegovina and surrounding countries, as well as service production in smaller series for some of Belupo's d.d. foreign markets (Kosovo, Albania and Macedonia).

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated financial reports by the Podravka Group for the period January – December 2009 have been prepared compliant to the Accounting Law of the Republic of Croatia and the International Financial Reporting Standards and provide an integrated and truthful insight in assets and liabilities, loss and profit, financial situation and business of the Group and all related dependant companies included in the consolidation.

The audited financial reports by the Podravka Group for 2009 show the corrected incomes from selling the factory in Umag (in 2007) which also influenced the change of information already published for 2007 and 2008. Reclassification for some positions in the balance sheet has also been performed.

Accounting director

Draga Celiščak

Management Board member in charge of Finance:

Lidija Kljajić

EXPECTED DEVELOPMENT OF PODRAVKA GROUP

Programs and markets for achieving growth

The goal of Podravka Group is to develop in highly differentiated strategically defined business programs of food seasonings, meals, beverages, meat products and pharmaceuticals. Further development of the existing and building new brands within highly profitable food categories will realize presumptions for long-term profitability and further business development and growth.

In Croatia and the markets of SouthEast Europe Podravka aims to be the leading manufacturer of branded food products, while in the markets of Central and Eastern Europe is aims to maintain the leading position in the category of all-purpose food seasonings and to offer a series of products in selected categories. Podravka is also present in the markets of Western Europe and overseas countries where it offers its products in the ethnic segment, and it is striving to offer its products to consolidated retail market.

In Croatia, SouthEast and Central Europe the biggest contribution to growth is expected by launching of new products and subcategories within product groups food seasonings, Podravka dishes, fish and fish products.
Significant contribution to growth is also expected in the markets where the full potential of Podravka's strongest brand Vegeta has not been completely used, markets of Eastern and Western Europe in particular.
Additional growth Podravka will try to achieve inorganically – by acquisitions and strategic alliances in the region of South East, Central and Eastern Europe with the base goal of additional strengthening of its position in strategic programs in which it does business in the stated markets.

General strategic goals

- To be the leading food company on defined strategic markets
- To be recognizable supplier of pharmaceutical products
- To be the first or the second player in defined strategic business programs, defined by value market share
- To achieve the efficiency level above the average of other industries in the markets where Podravka does business and thus fulfill the interests of its owners
- Enable improvement of cash flow necessary for operating business and company stability with better financial management of Podravka Group
- Reduce costs of procurement, sales and distribution, general and administrative costs and thus enable higher investments into marketing, research and product development. That way we can ensure long term future of our strongest brands as generators of company's value and wanted return for its owners.
- Company's goal is to satisfy the interests of owners and all interested parties for elevating the efficiency level above the average of all the industries in which Podravka does business, and with its activities the company wishes to contribute to the development of the general social community.
- Organic sales compound annual growth rate in the next 5 years is above the average CAGR in the region.

Strategic guidelines

It is Podravka's intention to differ from other companies in knowledge, product brands, high quality of products and business processes, to build corporate culture at the same time and to have motivated and satisfied employees.

Human resources

- Compliant to Podravka's key values, building corporate culture, satisfied employees is a precondition of a successful development, and employees are the biggest value of this company and the source of its competitive advantage.

Processes

- The focus of Podravka's growth and development is based on own brands and acquisitions, development of key brands, strategic alliances in distribution and other parts of the value chain.
- Extending the product assortment in strategic business areas, particularly in strategic markets, product innovations and their added value.
- Efficient marketing investments which are focused towards brands strengthening.
- State-of-the-art world technology in the production of the overall product assortment, guaranteeing high quality of products.

Market

- Podravka is a food processing company focused on achieving the highest level of satisfaction of its clients and consumers.
- Environment protection is one of Podravka's priorities, and it is implemented throughout the principle of sustainable development and clean production.

Finance

- In relation with the owners, the goal is to grow the return on capital and share value.

Key factors of success

1. Employees

Based on the implementing of Corporate Policy and strategic guidelines of the company, the organization and management of human resources have become the key area in strengthening of Podravka's competitiveness. Employees have been given the biggest significance, since their knowledges and competencies positively distinguish the company from the competition and provide it with competitive advantage. Knowledge and competencies today are the most valuable asset.

„Podravka's employees are its biggest strength, and their loyalty is company's basic value."

2. Quality and image
Podravka has always been a synonym for high quality and supreme products – each product having the name Podravka is the result of many years of tradition, know-how and caring for the health and well-being of the consumer.

All the products and business processes are based on the principles of quality management, and the satisfaction of clients and consumers is our main guideline. Podravka is obliged to satisfy the demands of clients and consumers and constantly improve the quality of products and business processes. Podravka is taking constant care on the sanitary validity and product safety compliant to the legislature of the Republic of Croatia, European Union and all the countries with which it does business. Knowledge, expertise and constant care for employee education ensures innovated products and processes for the global market. The center of Podravka's activities is constant improvement of the management system.

3. Innovativeness
Podravka is trying to be the leading food processing company in the region, especially in new and innovated products that maintain the atribute of supreme quality and satisfy the needs of consumers. Podravka is offering a high number of modern, high-quality products which are practical to use. Aiming to be a trend setter and leader in innovations on the market, through team work the company is constantly working on creating new products which will be in line with company's values.

4. Trust and satisfaction of clients and consumers

Podravka is a food processing company focused on achieving the highest level of satisfaction of its clients and consumers, who know that even after purchasing the product, they have at their disposal a range of additional services. Existing and future clients and consumers are the most valuable external potential and are therefore approached with special attention in an open and responsible communication. Podravka regularly evaluates the fulfillment of their needs and expectations. It analyses the feedback in order to increase confidence and satisfaction of clients and consumers and to continuously improve the product and production processes. Podravka creates trust based on mutual respect of both employees and clients and consumers.

5. Power, growth and sustainable development

Food processing is Podravka's basic activity. In the food industry, Podravka wants to be an innovative leader in its region, which includes the SouthEeast, Central and Eastern Europe. "We will be the best food company, able to provide fast responses to changes in business environment." Considerable activity is pharmaceutical industry, where the distinctive partnership approach with the selected therapy groups ensures growth and long-term value for employees, customers and society as a whole.

Significant presence in international markets is also a trait of Podravka. International markets make an opportunity for fast growth, and the origin from this region enables better understanding of consumer needs and specific local tastes. Culinary creativity and inclusion of consumers in the process result with innovative solutions.

Growth is one of the fundamental postulates of the company. Podravka's goal is constant, above average growth and development of the company – annual growth in double digit rates. Achieving this, Podravka will have satisfied owners and will be attractive to future investors. The satisfaction of shareholders is Podravka's key objective.

Podravka operates on the principles of sustainable development. Preserving the environment is the precondition of society development as a whole. In its development it pays special attention to the development of the social community and the region in which it operates.

Trends in the food and beverages industry

We are witnessing constant changes in our environment. In order for the companies to maintain their consumers and continue successful business, they must react in time and keep track of the market trends. All events on the social, geopolitical and financial spheres influence business plans of companies. Therefore, the task of any successful company is to adjust its business to events in their surroundings.

In the last couple of years several global trends much affected the changes in the macroeconomic environment of the business in the food industry:
- consolidation in trade and among manufacturers,
- import from developing countries, development of China and India,
- security, political and economic situation around the world.

These trends have influenced the growth of inflation, economic growth rate and the proportion of how much households are spending on food and beverages, which is particularly applicable to the markets in which consumers are very price-sensitive.

The main factors of change present with the consumers can be shown in two groups:

- **Socio-demographic trends:** polarization of the purchasing power of the population (very cheap and very expensive), increasing the importance of the older population, individualization, association and networking.
- **Consumer behaviour trends:** paying attention to health, requesting product availability in all circumstances, the importance of experience in product consumption.

In the past few years the consumers have been following the trend of active living, which entails the need for healthy products which are quickly available and consumer needs to have a choice to products that they are most satisfied with.

Concern about health is increasing, so the food industry follows the trends of organically grown products and raw materials, fresh fruit and vegetables supply, "natural goodness" of products with added fruit or other healthy side dish, and increasing are the trends for products that strengthen the immune system and provide the body with additional health benefits.

The trend of increasing awareness of human individuality and well-being is reflected in the food industry in increased products that are "just for me" or "better for me," and products that are targeted to a particular health problem, such as against stress.

Due to the increasing globalization and the availability of information, the consumers have developed the trend of diversified and domestic cuisine, i.e. enjoying different and authentic dishes and beverages.

Market positions of food categories in 2009

Croatia and other ex-Yu markets

	CRO	SLO	BiH	MAC	SRB	MN
All-purpose food seasonings	Market leader	Market leader	Market leader	Market leader	3rd market position	3rd market position
Soups	Market leader	3rd market position	Market leader	Market leader	3rd market position	Market leader
Dehydrated baby food	Market leader	Market leader	2nd market position	Market leader	2nd market position	Market leader
Fish cans	Market leader	2nd market position	Market leader	2nd market position	2nd market position	Market leader
Mineral water noncarbonated	2nd market position		Present in the market	Present in the market		
Dehydrated sweets	Market leader	2nd market position	Market leader	2nd market position	Present in the market	Present in the market

Central Europe and Russia

	CZ	HU	PL	SLK	RUS
All-purpose food seasonings	Market leader	2nd market position	Market leader	Market leader	Market leader
Soups	Present in the market			Present in the market	3rd market position
Rice	3rd market position		3rd market position	Market leader	

Legend:

(red)	**Market leader**
(dark red)	**2nd market position**
(beige)	**3rd market position**
(dark grey)	**Present in the market**

Source: research pannels (MEMRB, AC Nielsen)

RISK FACTORS

Business environment risk

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

Industrial risk

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

As a company that achieves a large share of its profit in foreign markets, Podravka is faced with strict criteria of quality control while exporting. But continuous growth of sales on foreign markets is an indicator of successful compliance to quality criteria and standards of the countries into which we are exporting and where we have our production facilities. Including Croatia into regional and world economic and political organizations, accession to the European Union, opens up a range of possibilities for Podravka, but also places before it specific demands where food industry needs to adjust rapidly and is being exposed to a wider competition.

Considering the wide range of products divided into groups, i.e. segments, each segment is exposed to specific risks effecting the successfulness of business and financial results of Podravka. Vegeta is Podravka's most important strategic product recognizable around the world. The significance of sales revenues from this product presents a potential risk for Podravka in case of drastic production reduction and/or sales drop on domestic/foreign market.

Business results achieved in beverages segment are significantly influenced by weather that greatly determines the level of water consumption and consumption of other nonalcoholic beverages. Therefore sales in this segment are subject to oscillations in years of bad weather.

Belupo pharmaceutical industry faces the risk of the pharmaceutical industry. The most prominent problems in this segment are prices of medicines, changes in the list of the Croatian Health Institute, problems of collecting due payments from variety store suppliers, facing reforms of the health system, reduction of profit margins and ecological risk, i.e. the problem of waste management and old medicines management.

To be more successful in facing these risks, Podravka devotes special attention in monitoring world trends in food industry and is trying to keep up with the latest technological achievements, offering to the market innovated and new products with are taking a growing share in the newly acquired value.

Competition risk

Importance of the food industry, food and beverages production sector, is also emphasized by the information on high share of this sector in the total industrial production. Food and beverages production traditionally takes the highest share in the total processing industry. Food industry is featured by constant and growing demand which is among other a consequence of growing standard of living and changes in the eating habits, causing also a powerful competition within the sector.

The potential and achieved growth rates in the food and beverages industry have largely affected the increase of competition in this sector. Besides, the present globalization process, political stability, development and liberalization of the markets, as well as increased standards of living have greatly affected the removal of market boundaries and increase in the competition degree in the food industry. Additional effect of domestic companies being exposed to competition from large food processing companies derives from approaching to the European Union.

Also, aligning legislature with acquis communautaire in candidate countries, and the countries included in the stabilization and accession process, completely removes the obstacles in accession of these markets to the inner market of the European Union and place new standards and norms.

The result of the stated processes is a high exposure of local food processing companies to the global competition, creating simultaneously new business opportunities for local companies by fast opening of foreign markets. On the other hand, accession to the European Union and opening of the foreign markets to domestic companies such as Podravka which already has a significant presence on foreign markets, opens the possibilities of further development, new business opportunities, strengthening of market positions in the markets of the region. Also, to emphasize, food processing industry is also determined by local consumer and eating habits and needs, so domestic food processing companies, such as Podravka, that continuously work on advancing the quality of its products and extension of its range, they manage not only to maintain, but also to strengthen its business and market position in the domestic market.

As a company with a defined development and investment strategy, Podravka has the strengths needed to successfully adapt to competition demands of the domestic and foreign markets.

Risk of trade

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

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

Podravka has developed partnership relations in commercial chains and together with them works on recognizing changes in consumer demands and preparing their products to satisfy those demands.

Business risk

Corporations are daily exposed to business risk that includes the risk of bad business and reduced company stability. Bad business decisions, bad financial results of an individual segment, non-efficient cost control and similar, increase the business risk, and can result in instability of company business.

Podravka systematically uses certain indicators through which it tracks business risk. Any significant deviation of solvency, profitability and indebtedness indicators from their normal values presents a signal of increased business risk, requiring appropriate measures to be taken in order to ensure stability in company's business.

Activities that Podravka performs in its business are exposed to various financial risks, including the effect of market prices change, changes in exchange rates and interest rates.

A potential risk of Podravka's business is in the fact that Podravka Group does business in various countries with various currencies as legal payment means. Compliant to valid accounting policies in Croatia and International Accounting Standard no. 21, Podravka needs to reevaluate the total monetary positions of its branch offices outside Croatia, where the reporting currency is other than Kuna, into own reporting currency, i.e. Croatian Kuna. Due to stated exposure to Kuna-Euro exchange rate movement (a large portion of Podravka's financial commitments has a currency clause in Euro) and the minority depends on Kuna-US Dollar movement, Podravka's business results can in certain measure be inf luenced by changes in the stated currencies. Managing the solvency risk implies maintaining sufficient funds and turn capital and ensuring the availability of financial means in the form of credits.

Financial assets that could potentially lead Podravka Group into a credit risk includes mostly cash, claims from buyers and credits given. Podravka Group keeps its cash in large banks, therefore the risk is negligible. Claims from buyers are shown reduced for reservations for suspicious and disputable claims. Podravka Group revenues and cash flow from its business activities depend on changes of interest rates on the market. Most of the loans are shown in relation to variable interest rates related to EURIBOR, WIBOR, BUPOR, PRIBOR and TOM for long-term credits and treasury notes from the Ministry of Finance with commercial notes).

Risks of management and staffing

Podravka's present business results are based on experts and experienced staff employed in the company. Current professional, experienced and motivated management at all levels affect the company results. Attention is paid to educating employees, which is of great importance to Podravka's development. Possible withdrawing of key managers and specialists from the company could have a negative effect on the results. Podravka continuously invests in staff development in order to fill key positions among its staff.

Additional risk derives from the fact that the current Management Board is only temporary and that its term expires on 31 May 2010. Accordingly, the uncertainty about the composition of the Board after that date indicates there might be certain risks associated with long-term strategic direction and growth vision and company development. Also, along with the risk of staffing, there is also the risk of shifting the focus from main corporate activities.

Ecological risk

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

SUSTAINABLE DEVELOPMENT

Podravka Group works in compliance to norms and demands of socially responsible business, i.e. in line with the business principles of long term sustainable development. Guided by the stated principles, in all of its every day operations Podravka Group promotes and encourages the application of norms and demands proposed by socially responsible business and compliance of economy with developmental goals of the community, and preservation of the environment for future generations. The mission of Podravka Group is to do business in the interest of clients and consumers, and specific activities are taking place within the Croatian Business Council for Sustainable Development (HR PSOR) to influence the existing legislature, to exchange practical experiences and to encourage HR PSOR members to actions with the goal of improving the standards of the social community.

Reductions of energy consumption which are continuously being performed directly influence prices per unit of product, reducing at the same time the greenhouse gasses emissions, contributing thus to environment protection. We apply the same approach to water as one of our most precious resources, where the trend of reduced water consumption is constantly present, meaning also reduced costs and less waste water released into the environment. Allowed emissions control is under constant supervision by our expert services and authorized government institutions, and in line with that Podravka Group completely fulfills all obligations proscribed by laws and regulation on allowed concentrations of released emissions. Substances that damage the ozone layer are completely removed from use. The technological process and its organization directly affects minimal burdening on the waste waters, creation of waste and its provision and energy loss in the process.

We are constantly working on innovating the quality and declarations of our products, compliant to regulations in the markets where we operate. Like other successful and reputable world companies, continuous goal of Podravka Group is to contribute to the advancement of society and life of the citizens, i.e. socially responsible business. In all the environments where Podravka Group operates it has proved to be a desirable social partner that takes care of the community.

Employees are one of the keys to company's success and are the most important building blocks of Podravka's competitive advantage on the market. Innovative and dynamic corporate culture that respects individuality at the same time, but encourages team work is exceptionally important for successful business in multicultural international context. Podravka Group is aware of the importance of selecting the best employees at all the levels and of the continuous investment in their development. On the other hand, the difference of national and business cultures enrich the entire business, adapting it to global changes.

Employees are regularly informed through corporate Intranet site, two-weekly newsletter "Podravka" and monthly newsletter of Belupo "Glasilo". Apart from these channels of reporting about the activities in the company, in 2009 the workers have been given the opportunity to participate and get information at workers meetings where the Management Board and the executive management inform the employees on business results, important events and company plans for the upcoming period.In 2009 such transparent communication between the management and workers proved exceptionally important in the extraordinary situation the company found itself. During 2009, with the purpose of optimizing business and increasing business efficiency, workers were provisioned through payment of stimulating severance payments.

ENVIRONMENT

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

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

Podravka is a recognizable company that produces food products and pharmaceuticals which are of a standard quality, safety and efficiency. Apart from assuring the satisfaction of clients and creating profit, another important segment of the business policy is constant care about the environment. Sorting of waste and its separate collecting are two key demands in managing waste. Strict separation of waste at the points of its origin continuously reduces the amounts of municipal waste, simultaneously increasing the amounts of sorted waste which is appropriately disposed through recycling or used in other production facilities as secondary raw material outside Podravka Group or as a source of thermal energy. Experts of Podravka Group pay much attention to organized and systematic return and provision of waste packaging according to types and proscribed standards.

Waste waters are also paid special attention, as well as constant control of consumption and usage. The idea of water recirculation is as realized. Water for energy purposes is prepared at own production facilities, and its release is strictly controlled and is subject to neutralization.

Podravka's food items, considering their ingredients, are non-toxic and biodegradable, they are complimentary with the eco chain and have no significant negative effect on the environment. As for their preparation and usage, there is also no significant negative effect on the environment, as they are food items with high degree of processing. Particular attention is paid to significant reduction of preparation time, which directly presupposes reduced consumption of energy, water and other resources.

Product development process is based on improving industrial processes, developing new products and advance the existing ones that keep track of the latest trends in food industry and satisfying the demands, wishes and needs of our consumers. Developing new, good quality products that satisfy daily intake of energy and nutrients, and appropriately declaring these products, Podravka influences forming regular dietary habits of the consumers.

Sensoring and nutritionism department performs internal and external tests on the consumers, as requested by different development and marketing departments with the purpose to develop products that with its organoleptic quality should satisfy the groups of consumers to whom they are intended. Parallel with that, daily activities are performed to advance the existing products compliant to the latest trends in technology and raw materials. Using raw materials that have a beneficial effect on human organism and the development focused on functional products, we care for the health of our consumers. Closely cooperating with the consumers, we try to adapt and optimize raw materials in order to get finished products that are of better quality and appropriateness. Optimizing production processes we try to develop products that have a direct or indirect effect on savings of material, energy and water, reducing thus the cost of resources in production. When developing products we also respect the following principles:

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

Internal rulebooks are also in place, and they refer to:

- operating plan in saving and protection,
- environment protection intervention plan,
- waste management plan,
- rulebook on waste water treatment devices operation,
- operating plan of intervention actions upon sudden water pollution,
- rulebook on procedures and provision of all wastes from the technological processes and sludge from the process of waste water treatment and dealing with hazardous materials.

SOCIAL COMMUNITY

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

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

For a number of years Podravka is devoting special attention to life-long learning and continuous investment into employee development on all the levels. Podravka has a special program for trainees, has its own evaluation center, internal workshops and lectures, it is developing the concept of e-learning and has an internal knowledge database.

Initiatives

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

- **international:** International Business Leaders Forum (IBLF), Global Compact, European Organization for Quality (EOQ), European Foundation for Quality Management (EFQM),
- **national:** Croatian Employers Association (HUP), Croatian Chamber of Economy (HGK), National Competitiveness Council (NVK), Croatian Business Council for Sustainable Development (HR PSOR), Work group for preparing negotiations for EU accession,
- **local:** institutions of the Town of Koprivnica, Koprivnica- Križevci county, and other. Initiatives relating to areas of stimulating innovativeness and competitiveness through exchange of knowledge of the expert and scientific community (institutes and faculties, EU funds and other) or to encourage initiatives, entrepreneurship and knowledge exchange by participating in the projects of local (Local Agenda 21; European Mobility Week), regional (Regional operative plans for the development of the County) and general national interest (Croatian Academy of Science and art; legislature, work groups for preparing negotiations of Croatian accession to European Union) and other.

CORPORATE GOVERNANCE

STATEMENT ON CORPORATE GOVERNANCE

In compliance to the basic purpose of its existence relating to ensuring growth and successful business, growth value for the shareholders, the Management Board and the Supervisory Board of Podravka d.d. support through their business also the principles of corporate governance.

Podravka d.d. continuously tracks reforms in the area of corporate governance and strives to constant advancement of the relations with the shareholders, investors and overall public, introducing high standards in the mutual communication. Pursuant to the valid legislature of the Republic of Croatia, and taking into account OECD guidelines for corporate governance, Podravka d.d. has accepted Corporate Governance Code for aligning the rights of all shareholders and an open, professional and transparent approach in relations with the investors and overall public.

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

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

Aware of the importance and ethically founded behaviour of the business entities as part of the Croatian economy, Podravka d.d. accepted the Code of Ethics in its business both in text and in its contents as verified by the Croatian Chamber of Economy Assembly. As a signer of this Code, Podravka d.d. is obliged to respect the ethics principles in all of its business relations and has committed to respect the principles of ethics in all of its business relations and as such has accepted the obligation of working in compliance to the principles of responsibility, efficiency, transparency, quality, working in good faith and respecting the principles of good business conduct with partners, business and social environment and own employees.

As recommended in the Code of Ethics in Business, Management Board of Podravka d.d. verified and passed its own Code of Ethics of Podravka Group. The intention was that Podravka and all of its associated companies in country and abroad develop their own principles of ethics, based on the principles of modern corporate governance.

Consolidated annual report of the company and annual report on the situation at the company are submitted as one annual report, which includes the lower subsidiaries of Podravka d.d.

Subsidiaries of Podravka d.d.

Name of subsidiary	Country of incorporation	Ownership interest in %	Principal activity
Belupo d.d., Koprivnica	Croatia	100.00	Production and distribution of pharmaceuticals
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100.00	Purchase and sale of goods; meal preparation and catering services
Danica d.o.o., Koprivnica	Croatia	100.00	Meet processing and production
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	Services
Lero d.o.o., Rijeka	Croatia	100.00	Fruit and vegetable juice and beverage production
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	Trade
Ital-Ice d.o.o., Poreč	Croatia	100.00	Ice cream manufacture
Sana d.o.o., Hoče	Slovenia	100.00	Wafers
Podravka d.o.o., Ljubljana	Slovenia	100.00	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia & Herzegovina	100.00	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	100.00	Sale and distribution
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	Sale and distribution
Podravka-International Kft, Budapest	Hungary	100.00	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	98.88	Sale and distribution
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	Seasonings manufacture and sale
Podravka-International s.r.l., Bucharest	Romania	100.00	Sale and distribution
Podravka-Lagris a.s., Lhota u Luhačovic	Czech Rep.	100.00	Rice production and sale
Podravka-International s.r.o., Bratislava	Slovakia	75.00	Sale and distribution
Podravka-International Inc. Wilmington	USA	100.00	Sale and distribution
Podravka International, Turkey	Turkey	75.00	Sale and distribution

GENERAL ASSEMBLY

At the General Assembly the shareholders get to vote in person, through their proxy or an authorized representative. Shareholders entered in the computer system of the Central Depository & Clearing Company who apply for participation at the General Assembly seven days at the latest before the General Assembly is being held have the right of participation and vote at the General Assembly.

General Assembly can pass a valid resolution if it is supported by at least 30% (thirty percent) of the number of shares that get the right to vote. The president and deputy president to the General Assembly are elected by the General Assembly for the period of four years, as proposed by the Supervisory Board.

General Assembly of Podravka d.d. held on 22 July 2008 passed a resolution on electing the president and deputy president to the General Assembly for the period of four years, where Branko Vuljak was elected president to the General Assembly, and its deputy president Tomo Trošelj.

Shareholders, proxies and authorized representatives get the right to vote at the General Assembly using voting ballots marked with the number of votes pertaining to an individual participant at the General Assembly.

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

SUPERVISORY BOARD

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

Podravka d.d Supervisory Board members in 2009

Darko Marinac	president	(resignation 14 September 2009)
Ljubo Jurčić	president	(appointed to the Supervisory Board on 14 October 2009, elected president 18 November 2009)
Ksenija Horvat	deputy president	
Boris Hmelina	member	(recalled 14 October 2009)
Damir Kovačić	member	(resignation 21 December 2009)
Franjo Maletić	member	(recalled 14 October 2009)
Miljenko Javorović	member	(appointed to the Supervisory Board on 14 October 2009)
Darko Tipurić	member	(elected at the General Assembly on 22 July 2009)
Branko Vuljak	member	(term on suspension as of 23 October 2009)
Dražen Sačer	member	
Dubravko Štimac	member	
Karmen Antolić	member	
Nikola Gregur	member	

At the Supervisory Board session held on 23 October 2009 the resolution was passed to appoint the Audit Commitee, consisting of:

Miljenko Javorović	president of the Committee
Dubravko Štimac	member
Karmen Antolić	member.

This resolution cancels the previous resolution passed by the Supervisory Board on appointing the Audit, Remuneration and Nomination Committee.

Audit Committee is authorised to monitor the process of financial reporting, to monitor the efficiency of the internal control system, internal audit and risk management system, to monitor the independence of the independent auditors or auditing companies performing the audit, especialyl contracts for additional services, discuss plans and annual report of the internal audit and significant questions relative to this area, to give recommendations to the General Assembly on the election of an independent auditor or auditing company.

Members of Podravka d.d. Supervisory Board are entitled to a fixed monthly remuneration as decided at the General Assembly on remunerations for work of the Supervisory Board members. In 2009 members of the Supervisory Board were paid HRK 2,446,544, and if added the remunerations for the Supervisory Board members of Belupo d.d. and Danica d.o.o., members of the Supervisory Board for the entire Podravka Group were paid HRK 3,566,952.

MANAGEMENT BOARD

At the Supervisory Board session held on 23 October 2009, a resolution was passed on increasing the number of Podravka d.d. Management Board members from present five to seven members. Next to the existing members, new appointed members were Lidija Kljajić and Krunoslav Beširv, whose term is till the next session of General Assembly. At the same session, compliant to Article 261 of the Company Law, the Supervisory Board appointed Branko Vuljak, Supervisory Board member, to be a deputy member of the Management Board. This appointment the Supervisory Board was passed for a 30-days period, during which his term at the Supervisory Board was put on suspension.

At the session held 18 November 2009 the Supervisory Board passed a resolution on reappointing Branko Vuljak as deputy member of the Management Board, and his term ends on 31 May 2010. At the same session the term was also determined for Lidija Kljajić and Krunoslav Beširv to be till 31 May 2010.

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

Management Board members in 2009

Zdravko Šestak	president	(recalled 18 November 2009)
Miroslav Vitković	president	(appointed 21 December 2009)
Josip Pavlović	member	(recalled 18 November 2009)
Saša Romac	member	(recalled 18 November 2009)
Marin Pucar	member	
Lidija Kljajić	member	(appointed 23 October 2009)
Krunoslav Beširv	member	(appointed 23 October 2009)
Branko Vuljak	deputy member	(appointed 23 October 2009)

Remunerations to individual memebers of Podravka d.d. Management Board are determined by a managers contract signed between the individual Management Board members and the Company. Total gross amount for remunerations to Podravka d.d. Management Board members in 2009 was HRK 5,740,531, and if added the remunerations paid to Management Board members of Belupo d.d. and Danica d.o.o., gross amount paid to the members of the Management Board for the entire Podravka Group was HRK 11,611,397.

CODE OF CORPORATE GOVERNANCE

ANNUAL QUESTIONNAIRE FOR 2009

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

Company PODRAVKA prehrambena industrija d.d.

Question	YES/NO	Detailed
1. Does the company have its www pages on Internet?		
if yes, on which address?	YES	http://www.podravka.com/
If not, way?	/	
2. Are the semiannual, annual and quarterly reports made available to the shareholders?		
at the company's headquarters (If not, why?)	YES	
on the company's www pages on Internet (If not, why?)	YES	http://www.podravka.com/investors/financial-reports
in the English language (If not, why?)	YES	http://www.podravka.com/investors/financial-reports
3. Did the company prepare the calendar of important events? (If not, why?) If yes,	YES	
has the calendar of important events been published on the company's web pages on Internet? (If not, why?)	YES	http://www.podravka.com/investors/corporate-action-calendar
has the calendar of important events been orderly and timely updated? (if not, why?)	YES	
4. Does the company announce the list of shareholders and update it at least twice a month? (If not, why?)	NO	Company web site shows shareholder structure for ten largest shareholders and it is updated in the beginning of each week. Detailed shareholder list is kept by the Central Depository Clearing Agency that, compliant with the law, daily publishes on its web site the list of ten largest shareholders.
5. Is company in relationship of cross-ownership of shares with the other company or companies? If yes,	NO	
which companies are these?		/
are the data on cross-ownership publicly announced and how? (If not, why?)	/	
6. Does the company announce in the annual statement data on securities issued by the company which are owned by the Members of the Supervisory Board or the Management Board of the company? (If not, why?)	YES	Information on the total number of securities owned by the Supervisory Board and the Management Board of the Company on 31st December 2009 have been published in the Company's Annual Report for the year 2009.
7. Does the company publish on its web pages the records on securities issued by the company which are owned of the Members of the Supervisory Board or the Management Board of the company, and are these records regularly (within 48 hours) updated? (If not, why?)	NO	Information on the total number of securities owned by the Supervisory Board and the Management Board members on 31st December 2009 have been published in the Company's Annual Report for the year 2009. Upon receiving a notification from any individual member of the Supervisory Board or the Management Board that there have been changes in the number of securities owned by them, the Company informs the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency.

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

16. Did the company provide for shareholders, who due to whatever reason are not in a position to vote at the Assembly by themselves, without additional expenses, the proxies who are obliged to vote in compliance to the shareholders' instructions? (If not, why?)	YES	
17. Did the Management Board of the company, at convocation of the Assembly, set the date according to which the status in the register of shares will be established, which will be relevant for determination of realizing voting rights in the Assembly of the Company in the manner that such date will be set prior to holding the Assembly and may be at the most 7 days prior to holding the assembly? (If not, why?)	YES	
18. Does the decision on payment of dividend or dividend advance include the date on which the person being the shareholders becomes entitled to dividend payment and the date or period when the dividend will be paid out? (If not, why?)	NO	In 2009 the Company did not pay any dividends.
19. Is the date on which the person becomes entitled to payment of dividend or dividend advance at least 10 days after the date of passing the decision? (If not, why?)	NO	The company did not pay any dividends.
20. Does the date of payment of dividend or dividend advance fall at least 12, and at most 30 days after the date of passing the decision? (If not, why?)	NO	The company did not pay any dividends.
21. Did the period of payment of dividend or advance dividend last for more than 10 days? (If yes, why?)	NO	The company did not pay any dividends.
22. Were at the payment of dividend or advance dividend some shareholders favored? (If yes, why?)	NO	In 2009 the Company did not pay any dividends.
23. Was the decision on payment of dividend or advance dividend which determines the aforementioned dates announced and submitted to the stock exchange at least 2 days upon its making?	NO	
24. Were the agenda of the Assembly, as also all relevant records and papers with the explanations referring to the agenda, announced on the web pages of the company on Internet, and put at disposal to the shareholders in the company's premises from the date of the first public announcement of the agenda? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
25. Were the agenda of the Assembly and all relevant records and papers announced on the web pages of the company on Internet also in the English language? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
26. Have the conditions been set for participation at the General Assembly and usage of the voting right (with no regard to whether permitted in compliance to the law and statute) such as for example registering participation in advance, certification of powers of attorney and similar? (If yes, why?)	YES	Registration of participants in advance as a condition of participating at the General Assembly is stipulated due to a large number of small shareholders, with the intention of maintaining order and regularity of the session being held.
27. Does the report to be submitted by the Supervisory Board to the General Assembly include, apart from the Content of the report defined by the law, the evaluation of the overall business efficiency of the company, activities of the Management Board of the company and the special review of its cooperation with the Management Board? (If not, why?)	YES	
28. Were the shareholders given the opportunity to participate and especially to vote at the General Assembly of the company by modern communication technology devices? (If not, why?)	NO	There are no preconditions for such participation of shareholders at the General Assembly.

29. Did the Management Board of the company publicly announce the decision of the General Assembly of the company, as also the records of the possible action for annulment of these decisions? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
30. Did the Supervisory Board take its decision on the master plan of its activities including the list of regular meetings and records to be regularly and timely put at disposal to the Members of the Supervisory Board? (If not, why?)	YES	
31. Did the Supervisory Board make the internal rules of conduct? (If not, why?)	YES	
32. State the names of the Supervisory Board's members.		Karmen Antolić, Nikola Gregur, Boris Hmelina (recalled 14 Oct 2009), Ksenija Horvat (deputy president), Damir Kovačić (resigned 21 Dec 2009), Franjo Maletić (recalled 14 Oct 2009), Darko Marinac (resignation 14 Sep 2009), Dražen Sačer, Dubravko Štimac, Branko Vuljak (term on suspension as of 23 Oct 2009), Ljubo Jurčić (appointed to Supervisory Board 14 Oct 2009, elected president 18 Nov 2009), Miljenko Javorović (appointed 14 Oct 2009), Darko Tipurić (elected 22 Jul 2009 at the General Assembly)
33. State for each member of the Supervisory Board in which other companies he/she is the member of the Supervisory Board of the Management Board. If some of these companies are considered to be competitive with the company, state it.		There is no obligation of submitting requested information.
34. Is the Supervisory Board of the company mostly composed of independent members? (If not, why?)	YES	
35. Which members of the Supervisory Board are independent?		Karmen Antolić, Nikola Gregur, Dražen Sačer, Dubravko Štimac and Darko Tipurić
36. Are there in the company a long term succession plan? (If not, why?)	YES	
37. Has the reward or the remuneration received by the Members of the Supervisory Board in entirety or partly been determined according to their contribution to the efficiency of the company? (If not, why?)	NO	The remuneration is fixed and in no part does it depend on efficiency of company's business.
38. Is the remuneration to the Members of the Supervisory Board:		
determined by the decision of the General Assembly:	YES	
determined in the Articles of Association of the Company	/	
determined in some other manner (if yes, in which?)	/	

39. Have the detailed records on all remunerations and other earnings from the company or from the with the company related persons of each individual member of the Supervisory Board of the company, including the structure of such remuneration, been publicly announced? (If not, why?) (If yes, where?)	NO	Supervisory Board members are entitled to a fixed monthly remuneration as decided at the General Assembly on remunerations for Supervisory Board members of Podravka d.d. Remunerations and other incomes given by the Company to the Supervisory Board members have been published in the Company's Annual Report for 2009.
40. Does every Member of the Supervisory Board informs the company on all changes with regard to his/her ownership of shares of the company, and thus latest on the next business day, upon occurrence of such change? (If not, why?)	YES	
41. State all activities in which the Members of the Supervisory Board or with them related persons participated on one side and the company or with it related persons on the other side.		There were no such activities.
42. Were all activities in which the Members of the Supervisory Board or with them related persons participated and the company or with it related persons:		
concluded on the market basis (especially with regard to terms, interests, guarantees and similar)? (If not, why and which?)	NO	There were no such activities.
clearly stated in the reports of the Company (If not, why and which?)	NO	There were no such activities.
confirmed by the independent assessment by expert persons being independent in relation to the participants of the subject transaction? (If not, why and which?)	NO	There were no such activities.
43. Are there contracts and agreements between the Member of the Supervisory Board and the company? If yes,	YES	
were they priory approved by the Supervisory Board? (If not, why?)	/	
were the important events of all such contracts and agreements included in the annual report? (If not, why?)	/	
44. Did the Supervisory Board establish the Appointment Committee? (If not, why?) If yes,	YES	
did the committee estimate the composition, size, membership and quality of work of the Supervisory Board and the Management Board, and draft the corresponding recommendations for the Supervisory Board? (If not, why?)	NO	Due to extensive changes in membership in the Supervisory Board during 2009.
did the committee make the evaluation of the knowledge, skills and experience of the individual members of the Supervisory Board and inform the Supervisory Board thereof? (If not, why?)	NO	Due to extensive changes in membership in the Supervisory Board during 2009.
did the committee analyze the problems related to planning of the Supervisory Board's and the Management Board's continuity? (If not, why?)	NO	Due to extensive changes in membership in the Supervisory Board during 2009.
did the committee analyze the policy of the Management Board with regard to employment of high management? (If not, why?)	NO	Due to extensive changes in membership in the Supervisory Board during 2009.

45. Did the Supervisory Board establish the Remuneration Committee? If yes,	YES	
Is the majority of members of the committee from the independent members of the Supervisory Board? (If not, why?)	YES	The creation of the policy has been initiated when the Management Board was appointed.
Did the committee propose to the Supervisory Board the policy of remuneration of the Management Board which has to relate to all types of remuneration, and in particular to the fixed part of the remuneration, the variable part of the remuneration is related to business efficiency, retirement plan and severance pay? (If not, why?)	NO	Due to extensive changes in membership in the Supervisory Board during 2009.
With regard to the variable part of the remuneration related to business efficiency, did the committee's proposal include the recommendations for determination of objective criteria of efficiency assessment? (If not, why?)	NO	There was no variable part.
Did the committee propose to the Supervisory Board the remuneration for single members of the Management Board in compliance with the company's remuneration policy and evaluation of activities of a single director? (If not, why?)	NO	Due to extensive changes in membership in the Supervisory Board during 2009.
Did the committee propose to the Supervisory Board the appropriate form and content of the contract with the members of the Management Board? (If not, why?)	NO	The Committee accepted the existing form and content of the Contract with the Management Board members and so far has made no changes or amendments.
Did the committee follow the amount and the structure of remuneration to the high management and give general recommendations to the Management Board with regard to that? (If not, why?)	NO	The company's structure of remunerating high management is through key performance indicators.
Did the committee with regard to the incentive part of the remuneration to the Management Board, in case it is composed of options on shares or other arrangements based on acquisition of shares, analyzed the general policy of such type of remuneration and suggested to the Supervisory Board appropriate solutions, as also analyzed records being published about it in the annual report, prior to announcement?	NO	
46. Did the Supervisory Board establish the Audit Committee? (If not, why?) If yes, ,	YES	
Is the majority of the committee members from the independent members of the Supervisory Board? (If not, why?)	YES	
Did the committee follow the integrity of the financial information of the company, and in particular, the correctness and consistency of the accounting methods used by the company and the group to which it belongs, including the criteria for consolidation of financial reports of the companies which belong to the group? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
Did the committee evaluate the quality of the internal audit system and risk management, with the objective to identify and make public the major risks to which the company has been exposed (including the risks related to compliance with the provisions) in the appropriate manner, and to manage them in the appropriate way? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.

Did the committee work on ensuring efficacy of the internal audit system, especially through preparing recommendations at selection, appointment, repeated appointment and dismissal of the head of internal audit department and with regard to resources at his/her disposal, and assessment of the head's actions at the occasion of findings and recommendations of the internal audit? (If not why?).	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
If there is no internal audit function within the company, did the committee make the evaluation of the need for establishment of such function? (If not, why?)	NO	Internal audit function exists.
Did the committee give to the Supervisory Board its recommendations with regard to election, appointment, repeated appointment and change of the external auditor, and on terms and conditions of his/her engagement? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
If there is no internal audit function within the company, did the committee make the evaluation of the need for establishment of such function? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
Did the committee supervise the independency and objectiveness of the external auditor, in particular with regard to rotations of the authorized auditors within the audit company and remunerations the company is paying for the external auditors' services? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
Did the committee follow the nature and the quality of services which are not part of the audit, but the company does receives them rendered from the audit company and the persons related to it? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
Did the committee analyze the efficacy of external audit and actions of the high management with regard to recommendations made by the external auditor? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
Did the committee examine the circumstances related to dismissal of the external auditor and give the appropriate recommendations to the Supervisory Board? (if it came to such dismissal)? (If not, why?)	NO	There was no such dismissal.
Has the committee open and unlimited communication with the Management Board and the Supervisory Board? (If not, why?)	YES	
To whom is the committee accountable for its work?		To the Supervisory Board.
Has the committee open and unlimited communication with the internal and external auditor? (If not, why?)	YES	
Did the Management Board submit, so far, to the Audit Committee:		
timely and periodical presentation of financial statements and related documents prior to public announcement of these data (If not, why?);	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.

records on changes in accounting principles and criteria (If not, why?);	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
accounting procedures accepted for the majority of actions (If not, why?);	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
each significant deviation between the book and real value per single items (If not, why?);	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
all correspondence with the internal audit department and independent auditors (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
Did the Management Board inform the Audit Committee on methods used for booking significant and unusual transactions and business events when the bookkeeping presentation of such events may be approached in different manners? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
Did the Audit Committee discuss with the independent auditor the issues related to:		
change or retaining of the accounting policies and criteria, (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
change of regulations (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
important estimates and conclusions in preparing financial reports (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
methods of risk assessment and results (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
highly risky areas of activities (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.

noticed larger deficiencies and significant deficiencies in internal audit (If not, why?)	NO	No larger deficiencies were noted.
impact of external factors (economic, legal and industrial) to financial statements and audit procedures (If not, why?).	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
Did the Audit Committee provide supply of high quality information from the dependent and associated companies, as also third persons (such as expert advisors)? (If not, why?)	NO	Due to the particularity of the situation the Company found itself in late 2009, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
47. Has the documentation relevant for work of the Supervisory Board been submitted on time to all members? (If not, why?)	YES	
48. Have all decisions made on the Supervisory Board's meetings been recorded in the minutes together with the voting results, stating how each member voted? (If not, why?)	YES	
49. Did the Supervisory Board prepare the evaluation of its work in the past period including the validation of contributions and competency of each member, as also of the joint work of the committee, evaluation of the work of committees established by the Supervisory Board, and the evaluation of the reached in relation to the target objectives of the company?	NO	
50. State the names of the members of the Management Board.		Zdravko Šestak (recalled 18 Sep 2009), Miroslav Vitković, Josip Pavlović (recalled 18 Sep 2009), Marin Pucar, Saša Romac (recalled 18 Sep 2009), Lidija Kljajić (appointed 23 Oct 2009) Krunoslav Bešvir (appointed 23 Oct 2009), Branko Vuljak (Supervisory Board deputy member – appointed 23 Oct 2009)

51. Are there rules for work of the Management Board defining the issues with regard to:

area of activities and objectives,	YES	
rules of procedure,	YES	
rules of solving conflict of interest,	NO	Conflict of interest was defined by management contracts.
secretary of the Management Board,	YES	
holding meetings, passing decisions, agenda, preparing and content of the minutes and submission of documents,	YES	
cooperation with the Supervisory Board	YES	

(If not, why?)

52. Did the company announce the statement of the policy of remuneration of the Management Board and the Supervisory Board as part of the annual statement? (If not, why?)	NO	There is no obligation of submitting requested information.
53. If there is one, does the Remuneration policy statement include the following parts:		
significant changes in relation to the remuneration policy in comparison with the prior year (If not, why?)	/	
explanation of the relative portion and significance of the fixed and variable parts of remuneration (If not, why?)	/	
sufficient information on efficiency criteria on the fulfillment of which the entitlement to acquisition of options on shares, shares or other form of variable portion of remuneration has been based (If not, why?)	/	
sufficient information on relation between the amount of remuneration and efficiency (If not, why?)	/	
basic ratios and reasons for distribution of annual bonuses or privileges which are not cash (If not, why?)		
summary review of contracts with the members of the Management Board which has to include the records on contract duration, notice periods and in particular on severance pays. Each form of remuneration for members of the Management Board and the Supervisory Board which includes options on shares and other rights to acquisition of shares or in case the remuneration based on the price of shares of the company must prior to becoming effective be approved by the General Assembly of the company. This approval relates to remuneration principles, and not to approving remuneration to single members of the Management Board or the Supervisory Board (If not, why?)	/	
54. Has the statement of the policy of remuneration of the Management Board been constantly announced through Internet on web pages of the company? (If not, why?)	NO	There is no obligation of submitting requested information.
55. Are detailed records on all earnings and remunerations which each member of the Management Board receives from the company publicly announced in the Annual report of the company? (If not, why?)	NO	There is no obligation of submitting requested information.
56. Are all forms of remunerations to the members of the Management Board and the Supervisory Board, including options and other benefits of the Management Board publicly announced by detailed single items and persons in the annual report of the company? (If not, why?)	NO	There is no obligation of submitting requested information. Total amounts of remunerations to the Management Board and the Supervisory Board members have been published in the Company's Annual Report for 2009.
57. Does the Statement of remunerations to the members of the Management Board include the following elements with regard to each member of the Management Board who filled this post in the year to which the statement relates:		
total amount of the salary, with no regard to whether he/she has actually been paid out or not (If not, why?)	/	
remunerations or benefits received from associated companies (If not why?)	/	
remunerations in from of participation in profit or bonus and the reasons due to which they were paid out (If not, why?)	/	

any other additional remunerations paid out to the members of the Management Board for the activities they performed for the company out of the usual scope of activities of the member of the Management Board (If not, why?)	/	
the compensation paid out or which has to be paid out to the former member of the Management Board with regard to cease of filling the post during the year to which the statement relates (If not, why?)	/	
the total estimated value of the non-cash benefits which are considered the remuneration, but are not listed in the prior items (If not, why?)	/	
with regard to remuneration in shares or options on shares or other forms of remuneration based on acquisition of shares: number of options or shares approved by the company in the year to which the statement and the conditions for the usage thereof relates (If not, why?)	/	
number of options exercised in the year to which the statement relates, and for each of them, the number of shares and the price at which it was exercised, or the value of shares included in distribution to the members of the Management Board at the year end (If not, why?)	/	
number of options not exercised at the end of the year, the price at which they can be exercised, the exercise date and the main conditions pertaining to the exercise (If not, why?)	/	
each change related to the change of conditions for exercise of the existing options which occurred in the company in the year to which the statement relates (If not, why?)	/	
each loan (including the balance of debt and the interest rate), advance payment or guarantee in favor of the members of the Management Board from the with the company associated companies which are included into the consolidated financial report (If not, why?)	/	
58. Did every member of the Management Board inform the Supervisory Board of the company on all changes with regard to his/her ownership of the shares latest the next business day upon occurrence of such change with the obligation of the company to publicly announce such change in the shortest possible term? (If not, why?)	NO	There were no such changes in 2009.
59. State all activities in which the members of the Management Board or with them related persons participated on one side and the company or with it related persons on the other side.		There were no such activities.
60. Were all activities in which the members of the Management Board or with them related persons participated:		
closed on the market basis (especially with regard to terms, interests, guarantees and similar)? (If not, why and which?)	NO	There were no such activities.

clearly stated in the reports of the company? (If not, why and which?)	NO	There were no such activities.
confirmed by the independent assessment of the expert persons being independent in relation to participants in the subject business? (If not, why and which?)	NO	There were no such activities.
61. Do the members of the Management Board have the significant portion in the companies which might be considered competitive with the company? (If yes, which, where and how many?)	NO	
62. Are the members of the Management Board the members of the Supervisory Boards of other companies? (If yes, state the names of these members of the Management Board, the firms of the companies in which they are the members of the Supervisory Boards, and the functions they fill in these Supervisory Boards).	YES	Zdravko Šestak – president in Supervisory Board DANICA d.o.o. (recalled 26 Sep 2009), deputy president in Supervisory Board BELUPO d.d. (recalled 15 Dec 2009), deputy president in Supervisory Board SLOGA d.d., Miroslav Vitković – member in Supervisory Board DANICA d.o.o., PODRAVKA-LAGRIS a.s. (elected 20 Jan 2009), PODRAVKA INTERNATIONAL USA Inc (elected 20 Jan 2009), Josip Pavlović - member in Supervisory Board DANICA d.o.o. (recalled 26 Sep 2009), member in Supervisory Board Belupo d.d. (recalled 15 Dec 2009), Marin Pucar - member in Supervisory Board DANICA d.o.o., PODRAVKA LAGRIS a.s. (elected 20 Jan 2009), PODRAVKA INTERNATIONAL USA, (elected 20 Jan 2009) Saša Romac - member in Supervisory Board DANICA d.o.o. (recalled 26 Sep.2009), ROTOPLAST, member in Supervisory Board Belupo d.d. (recalled 15 Dec 2009.), Krunoslav Bešvir - member in Supervisory Board Danica d.o.o. (elected 26 Sep 2009), member in Supervisory Board Belupo d.d. (elected 15 Dec 2009), Lidija Kljajić - member in Supervisory Board Danica d.o.o. (elected 26 Sep 2009), member in Supervisory Board Belupo d.d. (elected 15 Dec 2009), Branko Vuljak - member in Supervisory Board Danica d.o.o. (elected 26 Sep 2009), member in Supervisory Board Belupo d.d. (elected 15 Dec 2009)
63. Does the company have the external auditor (If not, why?)	YES	
64. Is the external auditor of the company:		
in proprietary terms or in terms of interests related with the company (If yes, state in which manner)	NO	
renders to the company, by him/herself or through other persons, other services? (If yes, state which and how much does it cost the company)	NO	
65. Did the independent auditors directly inform the company on the following issues:		

discussion on the main accounting policy	YES	
important deficiencies and significant inadequacies in the internal audit,	NO	There were no such deficiencies.
alternative accounting procedures,	YES	
noncompliance with the Management Board, risk assessment, and	YES	Expert opinion was given on the financial reports of Podravka Group for 2009.
possible analyzes of fraud and/or misusage.	YES	
If they did not, why?		
66. Did the company publicly announce the amounts of the remuneration paid to the independent external auditors for the performed audit and other services rendered? (If not, why?)	NO	There is no obligation of submitting requested information.
67. Does the company have the internal auditors and the established internal audit system? (If not, why?)	YES	
68. Do the investors have to possibility to request in written form and to timely get the relevant records from the Management Board of the company or from the person in the company entrusted with investors relations (If not, why?)	YES	
69. How many meetings did the Management Board of the company hold with the investors?		In 2009 company representatives participated on several investor conferences and held 28 meetings with the investors.
70. Has someone suffered negative consequences due to indicating to the supervisory bodies or authorities in the company or outside the company on deficiencies in application of regulations or ethical norms within the company? (If yes, why?)	NO	
71. Do all members of the Management Board and Supervisory Board agree that the statements stated in the answers to this questionnaire are at their best knowledge truthful in its entirety? (If not, state which members of the Management Board and the Supervisory Board do not agree, with which answers they do not agree and why).	YES	

COMPANY SECURITIES

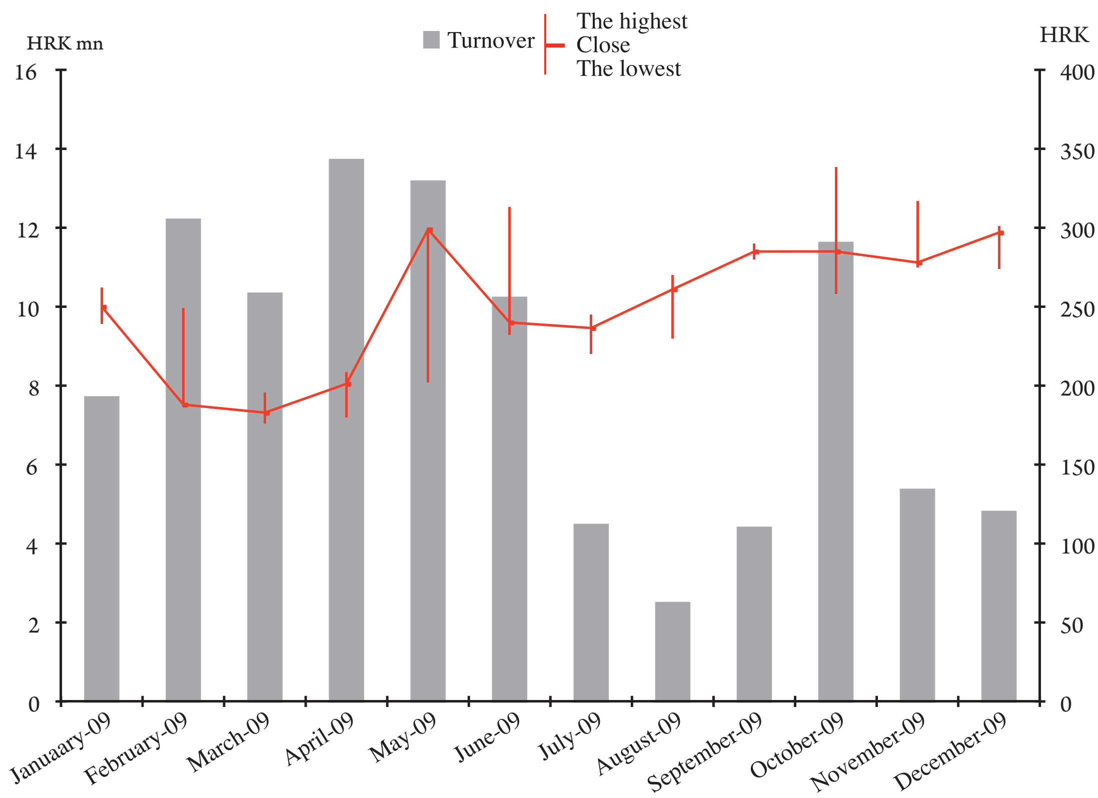
SHARE

Podravka share has been listed in the Official Market of the Zagreb Stock Exchange on 7 December 1998 with the symbol PODR-R-A. It is one of the shares with significant yearly turnover in the Official market, making it one of the fifteen most solvent shares of the Zagreb Stock Exchange in 2009.

Turnover and price

In 2009 turnover of Podravka share was significantly reduced, and in line with the total sales at the stock exchange, Podravka share faced turnover reduced three times. Total turnover for Podravka share in 2009 was HRK 100,445,871 with traded volume of 426,662 shares, and comparing to turnover in 2008 is reduced by HRK 275.1 million (-73.25%). The portion of the total turnover of Podravka share in the total turnover of shares at the Zagreb stock Exchange in the observed period was 1.4% (2.4% in 2008).

Podravka share turnover and price



The highest turnover was in April amounting to HRK 13.7 million with traded volume of 71,346 shares. The lowest selling price in 2009 was HRK 176.00 in March, while the highest was HRK 338.50 recorded in October 2009. WACP of Podravka share in 2009 was HRK 238.39, which is 33.99% drop compared to 2008.

Podravka share turnover per quarters in 2009

	2008		2009	
Period	**Turnover HRK**	**Volume**	**Turnover HRK**	**Volume**
I quarter	139,989,965	339,648	30,227,815	143,003
II quarter	45,053,382	115,456	37,100,170	164,894
III quarter	86,230,757	244,756	11,350,000	45,363
IV quarter	104,229,920	356,641	21,767,886	73,402
Total	**375,504,024**	**1,056,501**	**100.445.871**	**426,662**

Source:ZSE

In 2009 the highest quarterly turnover was realized in the second quarter, amounting to HRK 37.1 million. Turnover in the second quarter was 37% of the total turnover in 2009. What follows is the drastic drop and only 33 % of the total annual turnover was realized in the second half of the year.

Comparison of quarterly share turnover at the Zagreb Stock Exchange (HRK billion)

	Turnover		Portion	
Period	**2008**	**2009**	**2008 portion %**	**2009 portion %**
I quarter	5,732	1,575	34%	21%
II quarter	4,204	2,497	25%	34%
III quarter	3,613	1,767	21%	24%
IV quarter	3,385	1,595	20%	21%
Total share turnover	16,934	7,434	55%	68%
Bond turnover	**13,150**	**3,355**	**42%**	**31%**
Total turnover ZSE	**31,064**	**10,913**	**100%**	**100%**

Source:ZSE

Total turnover at the Zagreb Stock Exchange was reduced by 65% in 2009 and the portion of reduced bonds turnover is evident in the total turnover. In 2009 31% turnover is realized with bonds and 68% with shares, while the year before 42% turnover at the Zagreb Stock Exchange was with bonds and 55% with shares.

Prices in the period 2004 - 2009

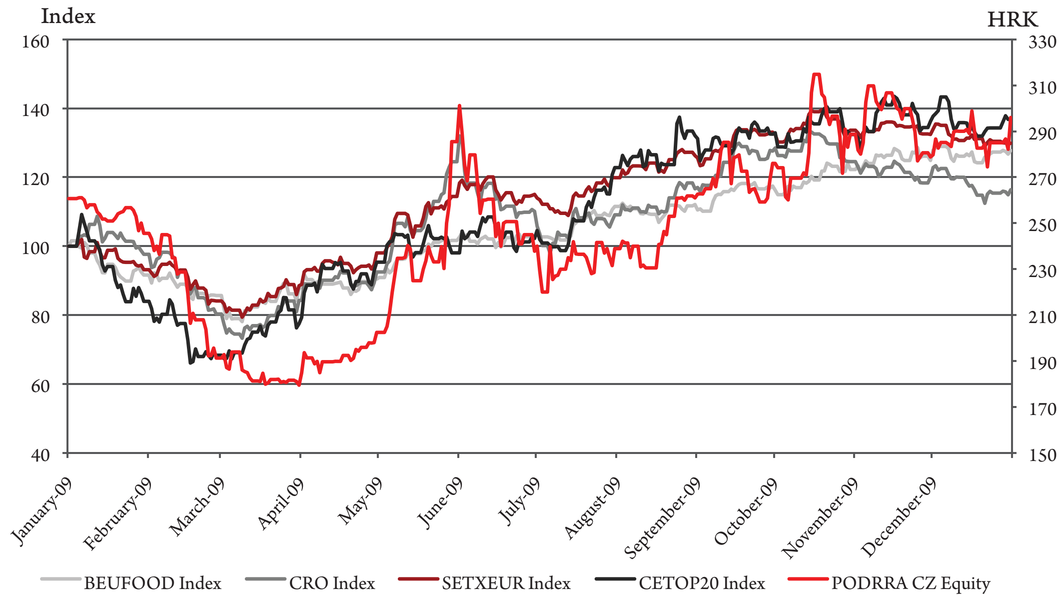
on 31 December	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
The highest	239.00	365.00	495.00	645.00	514.00	338.50
The lowest	162.00	229.00	315.00	440.00	237.00	176.00
Close	239.00	318.00	470.01	510.00	261.00	296.99
Change index	100	133.05	196.66	213.39	109.21	124.26
CROBEX value	1,565.80	1,997.50	3,209.50	5,210.30	1,722.25	2,004.06
Change index	100	127.57	204.98	332.76	109.99	127.99

CROBEX value and Podravka change index is observed through two periods – till 2007 and after 2007.
CROBEX value change index was continuously growing in the period from 2004 to 2007, and it grew more than three times, and change index for Podravka last price in the same period grew a bit over two times. In 2004 and 2005 Podravka share is growing faster than CROBEX, and in 2007 the index and price of Podravka reach their maximum. From then onwards, as a consequence of the world economical crisis, change index is rapidly decreasing. Higher volatility of CROBEX movement is also noticed, in comparison with the observed share, especially in 2007 when change index reached 332.76 points compared to 213.39 marked by Podravka share. In 2009 CROBEX ends at 127.99, and Podravka at 124.26 points.

Podravka share over three-year period

at 31 December	**2007**	**2008**	**2009**
The highest (HRK)	645.00	514.00	338.50
The lowest (HRK)	440.00	237.00	176.00
Close (HRK)	510.00	261.00	296.99
Annual turnover (HRK)	707,456,299	375,504,024	100,445,871
WACP	535.25	361.14	238.39
Market capitalization (mil. HRK)	2,764.20	1,414.60	1,609.70
EPS	3.40	8.94	-54.93
P/E	150.0	29.18	-5.41
P/BV	1.4	0.8	1.0
Dividend	-	-	-

Comparison of Podravka's share and stock market indices (base index (100)= 1 Jan 2009)



BEUFOOD index (Bloomberg Europe Food Index) is a capitalization-weighted index of the leading food stocks in Europe.
CROBEX (CRO Index) is the official index of the Zagreb Stock Exchange, weighed by the free float market capitalisation of shares traded at the Zagreb Stock Exchange.
SETX index (South-East Europe Traded Index) unites the share price trends of the 14 largest companies listed on stock exchanges of Zagreb, Ljubljana, Bucharest and Sophia and it is issued by the Vienna Stock Exchange.
CETOP20 index (Central European Blue Chip Index) consists of 20 blue chip shares listed in the stock markets of Budapest, Prague, Warsaw, Zagreb, Ljubljana and Bratislava.
The chart displays evident movement of Podravka share price in 2009, and the price of the share is moving consistently with the index price.

Stock market indices

Podravka share has been listed in several stock market indices based on its high solvency and high number of shares in free float. Next to Croatian index CROBEX, the share is listed in three regional indices of the Vienna Stock Market - SETX, CROX and CEERIUS and regional index Dow Jones STOXX Sub Balkan 30.

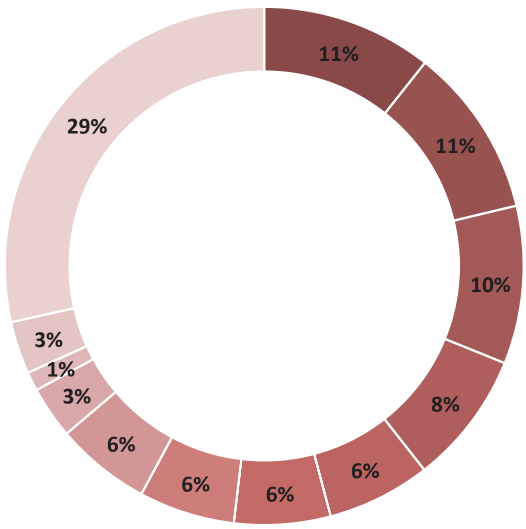
Portion of Podravka share in stock market indices on 31 December 2009

CROBEX	**5.61%**
SETX EUR	**1.34%**
CROX EUR	**6.91%**

Recommendations of analysts on 31 December 2009

RAIFFEISEN BANK	HOLD
ERSTE BANK	ACCUMULATE
HYPO-ALPE-ADRIA BANK	UNDER REVISION

Shareholder structure at 31 December 2009



**omnibus custody account*
CPF - Croatian Privatisation Fund,
CIPI – Croatian Institute for Pension Insurance,
MPF – Mandatory Pension Fund,
CIF - Closed-end investment fund.

SHAREHOLDERS	NO. OF SHARES
FIMA AMI LTD.	576,880
CPF/CIPI	575,598
CFP	534,170
UNICREDIT BANK AUSTRIA AG*	449,798
PBZ CROATIA OSIGURANJE MPF	349,974
ERSTE PLAVI MPF	325,163
AZ MPF	324,291
KAPITALNI FOND D.D.	321,804
RAIFFEISEN MPF	176,512
SLAVONSKI CIF	64,433
TREASURY ACCOUNT	177,511
OTHER SHAREHOLDERS	1,543,869
TOTAL NO. OF SHARES:	5,420,003

Treasury account status

Own shares at 31 December 2008		**152,677**
Purchase	2 12009	2,400
Purchase	7 1 2009	629
Purchase	19 1 2009	101
Purchase	20 1 2009	2,692
Purchase	21 1 2009	2,369
Purchase	22 1 2009	5,400
Purchase	23 1 2009	2,840
Purchase	26 12009	3,289
Purchase	27 1 2009	3,000
Purchase	2 2 2009	1,200
Purchase	3 2 2009	914
Total purchase / sale in 2009		*24,834*
Own shares at 31 December 2009		**177,511**

Shares owned by the members of the Supervisory and Management Board of Podravka d.d. at 31 December 2009

The Supervisory Board	170 shares
The Management Board	270 shares

BOND

Podravka's bond has been listed in the Official bonds market of the Zagreb Stock Exchange on 19 May 2006 and its symbol is PODR-O-115A. This bond was the first corporate bond in Kuna currency in the Croatian capital market. The issue of the bond is HRK 375 million with maturity in 2011 and annual interest rate of 5.125%.

Trading with Podravka bond

		2008		2009
Period	**Turnover HRK**	**Volume**	**Turnover HRK**	**Volume**
I quarter	57,417,815	60,435,000	19,596,000	**23,740,000**
II quarter	1,255,500	1,325,000	874,925	**987,500**
III quarter	41,531,500	44,000,000	17,997,879	**20,055,707**
IV quarter	53,422,877	60,668,500	5,409,000	**6,000,000**
Total	**153.627.692**	**166.428.500**	**43,877,804**	**50,783,207**

Source: ZSE

Turnover of Podravka bond in 2008 comprised 1.2% of total bonds turnover at the Zagreb Stock Exchange. In 2009 there was a significant decrease in bonds turnover at the Zagreb Stock Exchange and consistently with the market trends there was a decrease of Podravka bond turnover, but the portion of Podravka bond turnover remained at approximately the same level as in the year before and it is 1.3%.

Quarterly bond turnover at the Zagreb Stock Exchange

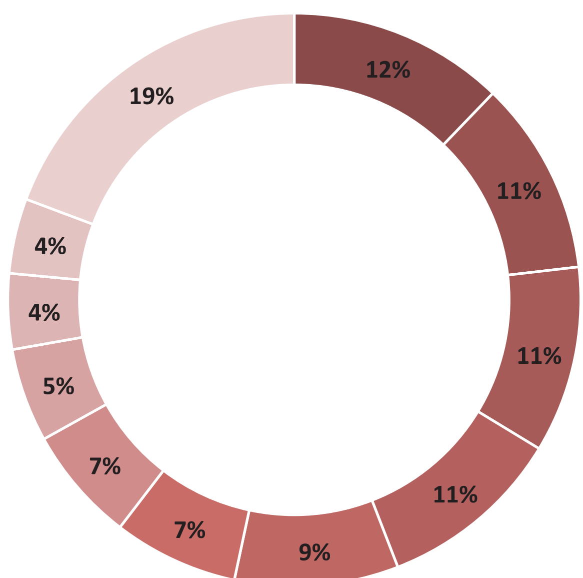
		2008		2009
Period	**Turnover HRK**	**Volume**	**Turnover HRK**	**Volume**
I quarter	6,062,606,301	3,424,571,689	1,577,584,214	768,337,305
II quarter	1,855,432,493	751,515,253	411,182,362	163,874,040
III quarter	2,401,762,290	1,319,697,280	428,058,139	245,523,124
IV quarter	2,829,788,385	1,243,824,587	937,895,334	759,748,770
Total	13,149,589,469	6,739,608,809	3,354,720,049	1,937,483,239

Source: ZSE

Interests due and interests gained

Voucher	Voucher payment	Period start	Period end	Interest (%)	No. of days	Interest gained per day (%)	Interest gained per day per Bond (HRK)
1.	17 5 2007	17 5 2006	16 5 2007	5.125	365	0.014041096	0.000140411
2.	19 5 2008	17 5 2007	16 5 2008	5.125	366	1.014002732	0.000140027
3.	18 5 2009	17 5 2008	16 5 2009	5.125	365	0.014041096	0.000140411
4.	17 5 2010	17 5 2009	16 5 2010	5.125	365	0.014041096	0.000140411
5.	17 5 2011	17 5 2010	16 5 2011	5.125	365	0.014041096	0.000140411

Bond ownership structure at 31 December 2009



IN 000

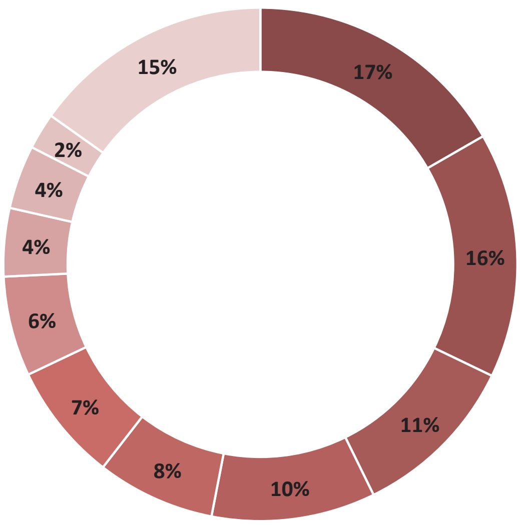
UNICREDIT BANK AUSTRIA AG*	43,222
RAIFFEISENBANK AUSTRIA D.D.	38,887
AZ MPF	37,296
RAIFFEISEN MPF	36,950
PBZ D.D.	32,774
CROATIA OSIGURANJE D.D.	25,000
PBZ D.D.*	23,093
PBZ CROATIA OSIGURANJE MPF	18,750
RAIFFEISEN BANK AUSTRIA D.D. ZAGREB	15,100
ERSTE PLAVI MPF	15,000
OTHER OWNERS	68,367

**omnibus custody account*
MPF – Mandatory Pension Fund

COMMERCIAL NOTES

As part of the program of issuing commercial notes amounting to HRK 350 million, on 10 February 2009 the first installment of commercial notes was issued and it was listed in the Official Market of the Zagreb Stock Exchange with the symbol PODR-M-006A. Nominal amount of this installment is EUR 18 million, return 9.05%, issue price 91.722%, maturity 364 days. Program duration is 3 to 5 years.

Commercial notes ownership structure at 31 December 2009



	IN000
RAIFFEISENBANKAUSTRIAD.D.	2,913
RAIFFEISENMPF	2,700
RAIFFEISEN BANK AUSTRIA D.D. ZAGREB*	1,850
PBZ CROATIA OSIGURANJE MPF	1,800
PBZD.D.*	1,300
RAIFFEISEN VPF	1,300
ZAGREBAČKABANKAD.D.*	1,100
ERSTEPLAVI MPF	750
RAIFFEISEN BANK AUSTRIA D.D. ZAGREB/H2	700
ERSTE&STEIERMARKISCHE BANK D.D./CSL	400
OTHER OWNERS	2,648

**omnibus custody account*

MPF – Mandatory Pension Fund
VPF – Volontary Pension Fund

PODRAVKA d.d. and Its Subsidiaries, Koprivnica

Consolidated Financial Statements
for the year ended 31 December 2009
Together with Independent Auditor's Report

RESPONSIBLITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the Croatian Accounting Law, the Management Board is responsible for ensuring that consolidated financial statements are prepared for each financial year in accordance with International Financial Reporting Standards ('IFRS') as published by the International Accounting Standards Board ('IASB') which give a true and fair view of the state of affairs and results of Podravka d.d. and its subsidiaries (jointly referred to as '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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed on behalf of the Management Board:

Miroslav Vitković

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 30 March 2010

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 statement of financial position as at 31 December 2009, and the related consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statement 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. Except as stated in the paragraph of matters that affect auditor's opinion, 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 Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Matters affecting the opinion
As discussed in Note 3.3. b) to the financial statements, the Group entered into several debt, deposit and option agreements during 2009. The present Management Board was not in possession of the related documentation, and received on 17 March 2010 copies of two out of five agreements that could affect the consolidated financial statements of the Group. Based on these two available agreements, as of the date of the approval of the consolidated financial statements, the Group should have reported and increase in liabilities and losses of approximately HRK 92,932 thousand. Given that the Management Board does not possess the entire documentation relating to the agreements, we were not able to determine any effects of the remaining agreements on the financial statements.

As discussed in Note 3.3. c) to the financial statements, the Group is currently under formal investigation by various authorities of the Republic of Croatia. The investigation pertains to various business and financial transactions carried out by the individual members of the former Management Board of the Group during their mandate. The present Management Board has made a detailed assessment of risks that may arise from business and financial transactions, that were not properly disclosed in the consolidated financial statements and properly reflected those risks, based on its best estimate, in the accompanying consolidated financial statements. The completion and final outcome of the investigation may require consideration of potential additional adjustment. Based on the current information, the present Management Board has taken steps required in connection with the inclusion of the known effects in the accompanying consolidated financial statements, and any potential other effects will be included as soon as they become known and determinable.

Qualified opinion
In our opinion, except for the effect of the matters discussed in the preceding two paragraphs, if any, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, 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

Zagreb, 30 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of HRK)	Notes	2009	2008 As restated
Sales	5	3,587,136	3,660,034
Cost of goods sold	8	(2,141,681)	(2,174,215)
Gross profit		**1,445,455**	**1,485,819**
Investment revenue	6	7,076	20,223
Other (losses) / gains, net	7	(346,721)	29,348
General and administrative expenses	9	(299,865)	(358,599)
Selling and distribution costs	10	(573,377)	(576,679)
Marketing expenses	11	(396,928)	(434,158)
Other expenses	12	(9,996)	(4,562)
Finance costs	15	(98,048)	(104,149)
(Loss)/profit before tax		**(272,404)**	**57,243**
Income tax expense	17	(15,471)	(9,780)
Net (loss)/profit for the year		(287,875)	47,463
Other comprehensive income			
Exchange differences on translation of foreign operations		57	(19,208)
Total comprehensive (loss)/income		**(287,818)**	**28,255**
(Loss)/income for the year attributable:			
To the equity holders of the parent		(288,059)	47,606
Non-controlling interests		184	(143)
Total comprehensive (loss) / income for the year attributable:			
To the equity holders of the parent		(288,002)	28,398
Non-controlling interests		184	(143)
(Loss) / Earnings per share:			
- Basic	18	(54.93)	8.94
- Diluted	18	(54.27)	8.80

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

(in thousands of HRK)	Notes	31/12/2009	31/12/2008 As restated	01/01/2008 As restated
ASSETS				
Non-current assets				
Property, plant and equipment	20	1,711,646	1,770,858	1,669,321
Goodwill	21	42,877	48,428	31,119
Intangible assets	22	311,609	343,599	197,437
Deferred tax assets	17	53,589	44,552	35,491
Other financial assets	24	11,573	61,828	61,040
		2,131,294	2,269,265	1,994,408
Current assets				
Inventories	25	646,839	631,760	594,522
Trade and other receivables	26	1,186,974	1,286,899	1,153,886
Financial assets at fair value through profit and loss	27	22,321	23,416	6,040
Cash and cash equivalents	28	145,269	419,248	112,549
		2,001,403	2,361,323	1,866,997
Non-current assets held for sale	29	4,004	4,517	5,469
Total current assets		**2,005,407**	**2,365,840**	**1,872,466**
Total assets		**4,136,701**	**4,635,105**	**3,866,874**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	30	1,583,691	1,587,356	1,628,467
Reserves	31	109,825	83,458	138,641
(Accumulated loss)/Retained earnings	32	(95,849)	218,520	134,939
Attributable to the equity holders of the parent		**1,597,667**	**1,889,334**	**1,902,047**
Non-controlling interests	33	34,361	34,113	-
Total shareholders' equity		**1,632,028**	**1,923,447**	**1,902,047**
Non-current liabilities				
Financial liabilities at fair value through profit and loss	34	336,300	318,750	354,000
Long-term borrowings	35	452,916	597,572	113,498
Provisions	36	29,226	27,339	25,412
Deferred tax liability	17	7,616	8,356	642
Total non-current liabilities		**826,058**	**952,017**	**493,552**
Current liabilities				
Trade and other payables	37	849,077	884,511	804,621
Short-term borrowings	35	805,050	858,455	649,216
Provisions	36	24,488	16,675	17,438
Total current liabilities		**1,678,615**	**1,759,641**	**1,471,275**
Total liabilities		**2,504,673**	**2,711,658**	**1,964,827**
Total equity and liabilities		**4,136,701**	**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 2009

(in thousands of HRK)	Notes	Share capital	Reserves	Retained earnings/ (Accumulated loss)	Total	Non-controlling interest	Total
Balance at 31 December 2007- before restatement	**30, 31,32,33**	**1,628,467**	**138,641**	**177,864**	**1,944,972**	**-**	**1,944,972**
Effect of correction relating to property sale and leaseback transaction	3.3 a)	-	-	(42,925)	(42,925)	-	(42,925)
Balance at 1 January 2008 – as restated		**1,628,467**	**138,641**	**134,939**	**1,902,047**	**-**	**1,902,047**
Net profit for the year		-	-	47,606	47,606	(143)	47,463
Other comprehensive expenses		-	(19,208)	-	(19,208)	-	(19,208)
Total comprehensive income		-	(19,208)	47,606	28,398	(143)	28,255
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 – as restated	**30, 31,32,33**	**1,587,356**	**83,458**	**218,520**	**1,889,334**	**34,113**	**1,923,447**
Loss for the year		-	-	(288,059)	(288,059)	184	(287,875)
Other comprehensive income		-	57	-	57	-	57
Total comprehensive loss		-	57	(288,059)	(288,002)	184	(287,818)
Exchange differences		-	-	-	-	64	64
Purchase of treasury shares		(6,390)	-	-	(6,390)	-	(6,390)
Fair value of share options		2,725	-	-	2,725	-	2,725
Transfer to other and legal reserves		-	26,310	(26,310)	-	-	-
Balance at 31 December 2009	**30, 31,32,33**	**1,583,691**	**109,825**	**(95,849)**	**1,597,667**	**34,361**	**1,632,028**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of HRK)	**2009**	**2008 As restated**
Net (loss) / profit for the year	**(287,875)**	**47,463**
Income tax	*15,471*	*9,780*
Depreciation and amortization	*156,537*	*160,024*
Losses/(gains) on disposal of non-current assets	*9,496*	*(2,658)*
Value adjustment of current assets	*31,597*	*12,387*
Value adjustment and impairment of non-current assets	*53,753*	*2,273*
Value adjustment of available-for-sale assets	*403*	*689*
Value adjustment of investments	*5,996*	*8,324*
Value adjustment of capital losses/(gains)	*2,725*	*(19,246)*
Value adjustment of liabilities at fair value through profit or loss	*16,907*	*(35,894)*
Increase in long-term provisions	*1,147*	*1,726*
Interest received	*(14,089)*	*(15,943)*
Interest paid	*109,156*	*94,035*
Value adjustment of receivables for loans and guarantees	*263,113*	-
Effect of changes in foreign exchange rates	*(4,321)*	*1,981*
Other items not affecting cash	*(815)*	*(1,268)*
Changes in working capital:		
Increase in inventories	*(15,210)*	*(12,264)*
Decrease/(increase) in trade receivables	*101,939*	*(222,458)*
Decrease in other current assets	*(8,947)*	*30,325*
(Decrease)/increase in trade payables	*(132,512)*	*8,074*
Increase in other liabilities	*1,773*	*49,961*
Net cash generated from operations	**306,244**	**117,311**

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

(in thousands of HRK)	**2009**	**2008 As restated**
Cash flows from operating activities		
Cash generated from operations	306,244	117,311
Income taxes paid	(20,695)	(26,861)
Interest paid	(113,303)	(83,931)
Net cash from operating activities	172,246	6,519
Cash flows from investing activities		
Acquisition of subsidiaries, net of cash acquired	(1,220)	(229,955)
Payments made for property, plant and equipment, and intangible assets	(141,791)	(172,830)
Sale of tangible and intangible assets	15,695	14,272
Long-term loans and deposits given	-	(14,181)
Collection of long-term loans and deposits given	649	6,807
Purchase of trading securities	(8,989)	(33,700)
Sale of trading securities	4,088	8,000
Short-term loans and deposits given	(313,211)	(979)
Collection of short-term loans and deposits given	185,630	108,910
Collected interest	10,966	9,133
Net cash used in investing activities	**(248,183)**	**(304,523)**
Cash flows from financing activities		
Purchase of treasury shares	(6,390)	(33,738)
Sale of treasury shares	-	11,873
Proceeds from long-term borrowings	49,565	549,602
Repayment of long-term borrowings	(94,087)	(84,929)
Proceeds from short-term borrowings	583,850	1,017,018
Repayment of short-term borrowings	(730,980)	(855,123)
Net cash (used in) / generated from financing activities	**(198,042)**	**604,703**
Net (decrease) / increase in cash and cash equivalents	**(273,979)**	**306,699**
Cash and cash equivalents at beginning of year	419,248	112,549
Cash and cash equivalents at the end of year	145,269	419,248

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 2009, 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 during 2009:

President	Darko Marinac (*until 14 September 2009*)
President	Ljubo Jurčić (*from 18 November 2009*)
Deputy President	Ksenija Horvat
Member	Boris Hmelina (*until 14 October 2009*)
Member	Damir Kovačić *(until 21 December 2009)*
Member	Franjo Maletić *(until 14 October 2009*)
Member	Miljenko Javorović (*from 14 October 2009*)
Member	Darko Tipurić
Member	Branko Vuljak
Member	Dražen Sačer
Member	Dubravko Štimac
Member	Karmen Antolić
Member	Nikola Gregur

- In the General Meeting of Shareholders of Podravka d.d., held on 14 September 2009, Mr. Darko Marinac, then current President of the Supervisory Board of Podravka d.d., resigned both as President and Member of the Company's Supervisory Board;
- On 14 October 2009, the Croatian Privatisation Fund passed a decision to recall Mr. Franjo Maletić and Mr. Boris Hmelina, then current members of the Supervisory Board, as well as a decision to appoint Mr. Miljenko Javorović and Mr. Ljubo Jurčić members of the Supervisory Board of Podravka d.d.;
- In the Supervisory Board Meeting held on 18 November 2009, the Supervisory Board decided to elect Mr. Ljubo Jurčić President of the Supervisory Board of Podravka d.d.;
- On 21 December 2009, Mr. Damir Kovačić resigned from his mandate as Member of the Supervisory Board of Podravka d.d.

Supervisory Board members in 2008:

President	Darko Marinac
Deputy President	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

Management Board during 2009:

President	Zdravko Šestak (*until 18 November 2009)*
President	Miroslav Vitković (*from 21 December 2009)*
Member	Josip Pavlović (*until 18 November 2009)*
Member	Saša Romac (*until 18 November 2009*)
Member	Marin Pucar
Member	Lidija Kljajić (*from 23 October 2009*)
Member	Krunoslav Bešvir (*from 23 October 2009*)
Deputy Member	Branko Vuljak (*from 23 October 2009*)

- In the Meeting held on 23 October 2009, the Supervisory Board of Podravka d.d. adopted a decision to expand the Management Board of Podravka d.d. from five to seven members. In addition to the current Management Board members from 2008, Ms. Lidija Kljajić and Mr. Krunoslav Bešvir were adopted new members of the Management Board. In the same Meeting, Mr. Branko Vuljak, member of the Supervisory Board, was appointed Deputy President of the Management Board, in accordance with Article 261 of the Companies Act.
- In the Meeting held on 18 November 2009, the Supervisory Board of Podravka d.d. adopted a decision to recall Mr. Zdravko Šestak, then current President of the Management Board, as well as Mr. Josip Pavlović and Mr. Saša Romac, then current members of the Management Board, as well as to re-appoint Mr. Branko Vuljak as Deputy President of the Supervisory Board, whereas the mandate for other members of the Management Board was set to expire 31 May 2010.
- In the meeting held on 21 December 2009, the Supervisory Board of Podravka d.d. reached a decision to appoint Mr. Miroslav Vitković President of the Management Board.

Management Board in 2008:

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

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

IAS 1 (Revised) '*Presentation of financial statements'*. The revised standard prohibits 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 are required to present a restated statement of the financial position as at the beginning comparative period in addition to the current requirement to present statement of the financial position at the end of the current period and comparative period. The Group applied the option to present the statement of comprehensive income as a single performance statement.
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 has applied the amended IFRS 2 in the consolidated financial statements presented.
IAS 32 (Amendment) *Financial instruments: Presentation* and IAS 1 (Amendment) *Presentation of financial statements - 'Puttable financial instruments and obligations arising on liquidation'*. 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 adoption of the Standard did not have any impact on the Group's financial statements.
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 Standard is effective for the periods commencing after 1 January 2009, and the effects of the changed Standard are presented in Note 5 to the financial statements.
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 has been removed. The IAS 23 (Amendment) is currently not applicable to the Group, as there are no qualifying assets at the Company the construction of which would require any borrowed funds.
IFRS 1 (Amendment) 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements'. 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 application of the amended Standard did not have any impact on the Group's financial statements.
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 has applied the IAS 36 (Amendment) and provided the required disclosure in Note 21 and 22 to the financial statements.
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 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 intangible assets are amortised using the straight-line method.

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 adoption of the amended IAS 19 did not have any impact on the Group's financial statements.
IAS 39 *(Amendment), 'Financial instruments: Recognition and Measurement'* (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
- This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
- The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.
- The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating Segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker.
- When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.
The application of the amended Standard did not have any impact on the Group's financial statements.

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 have no impact on the Group's operations because none of the Group's companies ordinary activities comprise renting and subsequently selling assets.
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.
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.

2.2. Standards and Interpretations early adopted by the Group

The Group has not adopted any other Standards or Interpretations in advance of their effective dates.

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

IAS 28 (Amendment) *'Investments in Associates'* (and consequential amendments to IAS 32 '*Financial Instruments: Presentation*' and IFRS 7 'Fi*nancial 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 amendment had no impact on the Group's financial statements, as there are no investments in associates within the Group.
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, only certain rather than all disclosure require-

ments 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 had no impact on the Group's financial statements, as there are no investments properties are held by the Group.

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 multiple element 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.

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 11.

Amendments to IFRS 4 *'Insurance contracts'* and IFRS 7 '*Financial Instruments: Disclosures'* - Improving disclosures about financial instruments (effective for annual periods beginning on or after 1 January 2009). The amendments do not have any impact on the financial statements of the Group.

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 Perio*d', 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 will not materially affect the Group's accounts and have therefore not been analysed in detail.

2.4. Standards and Interpretations in issue but not yet adopted

The following Standards and Interpretations have been issued but not yet adopted:

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.

IFRS 3 (Revised) '*Business combinations*'. 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 revised standard also requires additional disclosures about business combinations during the year. 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 January 2010). 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. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.

Amendments to IAS 7 Statement of Cash Flows (effective from 1 January 2010). The amendments (part of Improvements to IFRSs (2009) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in IAS 38 Intangible Assets for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows.

Amendments to IAS 17 Leases. As part of Improvements to IFRSs 2009 issued in April 2009, the International Accounting Standards Board (IASB) amended the requirements of IAS 17 Leases regarding the classification of leases of land. Prior to amendment, IAS 17 Leases generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' using the general principles of IAS 17. These amendments are

effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively.
IFRS 1 (revised) 'First-time Adoption of IFRS' (effective for annual periods beginning on or after 1 July 2009).

Amendments to IFRS 1 '*First-time Adoption of IFRS*'- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters (effective for annual periods beginning on or after 1 July 2010).

Amendments to IFRS 2 '*Share-based Payment*' - Group cash-settled share-based payment transactions (effective for annual periods beginning on or after 1 January 2010).

IFRS 9 '*Financial Instruments*' (effective for annual periods beginning on or after 1 January 2013).
Amendments to IAS 24 'Related Party Disclosures' - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011).

Amendments to IAS 32 '*Financial Instruments: Presentation*' – Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010).

Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010).
Amendments to IFRIC 14 *'IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction'* - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011).

Amendments to IFRIC 9 '*Reassessment of Embedded Derivatives*' and IAS 39 *'Financial Instruments: Recognition and Measurement (effective from 30 June 2009.* The amendments clarify the accounting for embedded derivatives in the case of a reclassification of a financial asset out of the 'fair value through profit or loss' category as permitted amendments to IAS 39.

IFRIC 16 '*Hedges of a Net Investment in a Foreign Operation*'. The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.
IFRIC 17 '*Distributions of Non-cash Assets to Owners*' (effective from 1 July 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 '*Transfers of Assets from Customers*' (effective from 1 July 2009). The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from '*customers*' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 Revenue.
IFRIC 19 '*Extinguishing Liabilities with Equity Instruments*' (effective for annual periods beginning on or after 1 July 2010).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis, adjusted by revaluation of financial instruments that are carried at fair value through profit or loss, in accordance with International Financial Reporting Standards ('IFRSs') 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 IFRSs 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 IFRSs, and authorised them for issue on 30 March 2010.

3.3. MATTERS AFFECTING PRIOR YEARS

3.3. a) Restatement of prior periods

On 20 December 2007 the Group concluded a sale and leaseback agreement for assets as part of a financial lease arrangement, in which the Group acts as the lessee.

The Group recognised the entire income from the sale of those assets immediately following the conclusion of the agreement, which is not compliance with IAS 17 Leases. IAS 17 requires that, in case of sale and leaseback transactions under financial lease arrangements, the excess of proceeds over the carrying amount of the asset should not be recognised immediately as income in the financial statements of the seller (the lessee) but rather deferred and amortised over the period of the lease.

The 2008 financial statements have been restated to reflect the correction of an error in recognising the income from the sale and leaseback transaction and to make the treatment of the sale and leaseback transaction compliant with IAS 17.

The correction of the balances from the beginning of the comparative period (2007) has resulted in an increase in deferred income and an adjustment (decrease) of the opening balance of retained earnings in the amount of HRK 42,925 thousand. As a result, income i.e. profit for the year ended 31 December 2008 have increased by HRK 2,867 thousand (2007: HRK 85 thousand).

At 31 December 2009, deferred income in respect of the sale and leaseback transaction amounts to HRK 37,190 thousand (2008: HRK 40,058 thousand).
The overall effect of the restatement to the financial statements for year 2007 is as follows:

	As originally reported	As adjusted	Impact through an increase/(decrease)
Statement of financial position as at 31 December 2007			
Deferred income – sale and leaseback transaction	-	42,925	42,925
Total liabilities	**1,921,902**	**1,964,827**	**42,925**
Retained earnings	177,864	134,939	(42,925)
Total equity	**1,944,972**	**1,902,047**	**(42,925)**
Statement of comprehensive income for the year ended 31 December 2007			
Income from the sale and leaseback transaction	43,010	85	(42,925)
Profit for the year	**18,336**	**(24,589)**	**(42,925)**

The overall effect of the restatement to the financial statements for year 2008 is as follows:

	Note	As originally reported	As adjusted	Impact through an increase/(decrease)
Statement of financial position as at 31 December 2008				
Deferred income – sale and leaseback transaction	37	-	40,058	40,058
Total liabilities		**2,671,600**	**2,711,658**	**40,058**
Retained earnings	32	258,578	218,520	(40,058)
Total equity		**1,963,505**	**1,923,447**	**(40,058)**
Statement of comprehensive income for the year ended 31 December 2008				
Income from the sale and leaseback transaction	6	-	2,867	2,867
Profit for the year		**44,596**	**47,463**	**2,867**

3.3. b) Option agreements

The Group entered into several debt, deposit and call option agreements during 2009. The present Management Board was not in possession of the related documentation, and received copies of two out of five concluded agreements in total that could affect the financial statements of the Company on 17 March 2010. As a result, the Management Board of the Group considers that, as of the date of this report, it possesses only partial documentation pertaining to the business relationship between Podravka d.d. and Bank.

According to the available documentation, which was provided on 17 March 2010 by Bank, the arrangement involves a call and a put option arrangement, as well as an escrow and an advance account arrangement. The subject of the Agreement is a package of 576,880 ordinary shares issued by Podravke d.d. for which Podravka d.d. grants a put option to Bank that expires on 30 December 2010, whereas Bank grants a call option to Podravka d.d. that expires on 30 September 2010. In the event of exercise of either option, the following two settlement methods have been provided:

Method A – Cash settlement
Podravka d.d. has the obligation to settle the difference between the achieved market price of the PODR-R-A share, net of any conversion amount, and the strike price using the advance account. If the amount on the advance account is not sufficient, Podravka d.d. undertakes to reimburse the difference. If the strike price is below the conversion amount, Bank undertakes to pay to Podravka d.d. all the funds deposited on the advance account as well as any additional difference. Had this settlement method been applied as of 31 December 2009, Podravka d.d. would have paid additional HRK 161.09 per each share, or approximately HRK 92,932 thousand in total.

Method B – Physical Settlement
In this case, Podravka d.d. pays the strike price, which amounts to approximately HRK 458.08 per share as of 31 December 2009, whereas Bank exercises the call option concluded holder of the shares package, and transfers the shares to Podravka d.d. As of the date of preparation of the 2009 consolidated financial statements, Podravka d.d. did not determine any further course of action regarding those Agreements or select any of the settlement methods. The transactions described above have not been reflected in these consolidated financial statements as the present Management Board was not in possession of all related documentation.

3.3. c) Formal investigation

The Group is currently under formal investigation carried out by various authorities of the Republic of Croatia. The investigation pertains to various business and financial transactions that individual members of the former Management Board of the Group carried out beyond the provisions of the Company's Statute and Management Board decisions during their mandate. The present Management Board has made a detailed assessment of risks that may arise from business and financial transactions that were not properly disclosed in the consolidated financial statements and properly reflected those risks, based on its best estimate, in the accompanying consolidated financial statements. The completion and final outcome of the investigation may require consideration of potential additional adjustments. Based on the current knowledge and information, the present Management Board has taken all steps required in connection with the inclusion of the known effects in the accompanying consolidated financial statements, and any potential other effects will be included as soon as they become known and determinable. Known effects are disclosed in Notes 6 and 7 in the accompanying consolidated financial statement.

3.4. 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 non-controlling interest is stated at the non-controlling interests' share in the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the non-controlling interest in excess of the minority interest are allocated against the interests of the parent.

3.5. 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.

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

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

3.7. Revenue recognition

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

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

(a) Sales of products and trade goods – wholesale

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

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

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

(b) Sales of products and goods – retail

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

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

(f) Government subsidies

Government subsidies are recognised at fair value when there is a reasonable assurance that the subsidies will be received and that the Group will comply with the conditions attaching to them. Government 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 losses/gains.

3.8. 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.

3.9. 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 Group'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 2009, the official exchange rate for EUR 1 and USD 1 was HRK 7.3062 and HRK 5.0893 (31 December 2008: HRK 7.3244 and HRK 5.1555, respectively).

3.10. 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.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are charged to the statement of income in the period incurred.

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 reporting date.

3.11. Share-based payments

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

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 reporting date.

3.12. Dividends

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

3.13. **Segment reporting**

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of IFRS 8, the identification of the Group's reportable segments has changed. Details on the operating segments are disclosed in Note 5 to the consolidated financial statements.

3.14. 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 reporting 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 reporting 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 reporting date. The measurement of deferred tax liabilities and assets reflects the amount at which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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

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

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

Value added tax

The Tax Authorities require the settlement of VAT on a net basis. VAT related to sales and purchases is recognised and disclosed in the statement of financial position 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.

3.15. Property, plant and equipment

Property, plant and equipment are included in the statement of financial position 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 Group 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 statement of comprehensive income 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:

	2009	2008
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 reporting 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 3.17).

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 statement of comprehensive income.

3.16. Intangible assets

Licences, brands 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, brands and rights over their estimated useful lives.

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 3.17).

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.

Internally-generated intangible assets - research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.
Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

3.17. Impairment of tangible and intangible assets

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

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

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

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

3.18. 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.

3.19. 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 statement of comprehensive income within line item 'Selling and distribution costs'.

3.20. 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 statement of financial position.

3.21. 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 Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Group's equity holders.

3.22. 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 reporting 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 reporting date. Actuarial gains and losses are recognised in full in the period in which they occur.

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

(e) Short-term employee benefits

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

(f) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest (become exercisable). At each reporting 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 statement of comprehensive income, 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.

3.23. 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 reporting date and adjusted to reflect the current best estimate. Where the effect of discounting is material, the amount of the provision is the present value of the expenditures expected to be required to settle the obligation, determined using the estimated risk free interest rate as the discount rate. Where discounting is used, the reversal of such discounting in each year is recognized as a financial expense and the carrying amount of the provision increases in each year to reflect the passage of time.

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

3.24. 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' (FVTPL), '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.

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 statement of comprehensive income. The net gain or loss recognised in statement of comprehensive income 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 statement of comprehensive income. 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 statement of comprehensive income for the period.

Dividends on AFS equity instruments are recognised in statement of comprehensive income when the Company's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in statement of comprehensive income, 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 reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

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

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

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

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

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

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

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 statement of comprehensive income 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 statement of comprehensive income are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

Derecognition of financial assets

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

3.25. Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in statement of comprehensive income 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.

3.26. 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 2009, the directors determined that the useful life of certain items of exceeded the original estimates, resulting in a decreased depreciation charge by HRK 161 thousand. 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. Based on the calculation of the net present value of future cash flows in 2009, intangible assets were impaired as follows: brands by HRK 39,270 thousand; distribution rights by HRK 7,200 thousand; pharmaceutical rights by HRK 1,525 thousand, and goodwill by HRK 5,758 thousand.
In 2008, no impairment resulted from the calculation of the future cash flows.
The carrying amount of goodwill is HRK 42,877 thousand (2008: HRK 48,428 thousand) (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 Group Management recognized deferred tax assets for temporary tax differences for the first time in the consolidated financial statements of the Group. Restatement of prior periods was not conducted due to the immaterial effect of the previous period. In 2009 Group recognized deferred tax assets at the available tax differences. The carrying amount of deferred tax assets was HRK 53,589 thousand (2008: HRK 44,552 thousand) (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 2009, provisions for jubilee benefits and retirement bonuses amounted to HRK 14,370 thousand and HRK 9,761 thousand, respectively (2008: the total benefits amounted to HRK 24,603 thousand) (see notes 36 and 38).

Consequences of certain legal actions

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

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

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

The Group 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 statement of comprehensive income.

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

The 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 its investment strategy based on the circumstances prevailing on the security market.

NOTE 5 – SEGMENT INFORMATION

Sales revenue

	2009	2008
	(in thousands of HRK)	
Product and merchandise sales	3,546,779	3,615,150
Service sales	40,357	44,884
	3,587,136	**3,660,034**

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. The operating segments were determined based on the similarity in the nature of individual product groups. Five operating segments have been identified:
Culinary, Meat and Fish Products, Food, Beverages and Other, and Pharmaceuticals.
The reporting segments are part of the internal financial reporting to the Management Board. The Management Board reviews the internal reports regularly and assesses the segment performance, and uses those reports in making operating decisions.

In prior years, segment reporting was based on three business segments: Food and Beverages, Pharmaceuticals, and Services.
The reporting segments have been redefined following the adoption of IFRS 8.

Segment revenues and results

Set out below is an analysis of the Group's revenue and results by its reporting segments, presented in accordance with IFRS 8. The revenue presented below relates to third-party sales.

	Segment revenue		Segment profit	
(in thousands of HRK)	**2009**	**2008**	**2009**	**2008**
Culinary	1,176,388	1,187,196	133,021	92,693
Meet and Fish Products	517,479	518,420	11,283	7,236
Food	724,891	761,626	28,751	23,019
Beverages and other	415,686	461,911	19,021	12,715
Pharmaceuticals	752,692	730,881	101,510	113,420
	3,587,136	3,660,034	293,586	249,083

Investment revenue	7,076	20,223
Other (losses) / gains, net	(346,721)	29,348
Central administration costs	(95,576)	(113,060)
Restructuring and other expenses	(32,721)	(24,202)
Finance costs	(98,048)	(104,149)
(Loss) / profit before tax	**(272,404)**	**57,243**

The Culinary segment comprises the following product groups: Food Seasoning, Podravka Meals, Condiments, Vegetable Products, and Tomato Products.
The Meat and Fish Products segment comprises the following product groups: Meat products and Eva fish products.
The Food segment comprises the following product groups: Baby Food, Spreads, Sweet Products, Snacks, Cereals, Fruit Products, Bakery and Mill Products, Frozen Products, Rice, Grains and Other Products.
The Pharmaceuticals segment comprises the following: Ethical drugs, No Prescription Program.
The 'Beverages and Other' segment comprises the following product groups: Non-alcoholic beverages, Merchandise, and Services.
The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

(in thousands of HRK)	31/12/2009	31/12/2008
Segment assets		
Culinary	1,169,833	1,262,946
Meat and fish Products	423,562	540,507
Food	799,278	866,396
Beverages and other	510,551	645,217
Pharmaceuticals	1,168,315	1,213,659
Total segment assets	**4,071,539**	**4,528,725**
Unallocated	65,162	106,380
Consolidated assets	**4,136,701**	**4,635,105**

(in thousands of HRK)	31/12/2009	31/12/2008
Segment liabilities		
Culinary	613,656	679,335
Meat and fish Products	222,187	290,737
Food	419,276	466,032
Beverages and other	267,820	347,126
Pharmaceuticals	612,861	652,823
Total segment liabilities	**2,135,800**	**2,436,053**
Unallocated	368,872	275,605
Consolidated liabilities	**2,504,673**	**2,711,658**

For the purposes of monitoring segment performance, all assets other than deferred tax assets and other financial assets have been allocated to segments.

All liabilities other than 'Other liabilities' and 'Provisions' (Notes 36 and 37) have been allocated by segments. Liabilities have been allocated to reporting segments in proportion to segment assets.

Podravka Group

Other segment information

	Depreciation and amortisation		**Additions to non-current assets**	
(in thousands of HRK)	**2009**	**2008**	**2009**	**2008**
Culinary	44,719	49,404	19,614	45,490
Meat and fish Products	15,626	17,676	7,816	27,295
Food	31,254	30,565	13,004	37,106
Beverages and other	23,149	22,081	12,506	36,034
Pharmaceuticals	41,789	40,298	88,851	26,905
Total	156,537	160,024	141,791	172,830

In addition to the depreciation and amortisation reported above, impairment losses and allowances were recognised in the current year attributable to the following segments:

(in thousands of HRK)	*2009*
Culinary	16,170
Beverages and other	23,100
Total brand impairment losses	**39,270**
Impairment losses on pharmacy rights (Pharmaceuticals)	1,525
Impairment of goodwill (Pharmaceuticals)	5,758
Impairment losses on distribution rights (Food)	7,200
Total impairment losses on intangible assets	**53,753**

Podravka Group

Geographical information

The Group operates in four principal geographical areas by which it reports third-party sales, together with the non-current asset disclosures.

	Revenue from external customers		**Non-current assets**	
(in thousands of HRK)	**2009**	**2008**	**2009**	**2008**
Croatia	1,868,597	1,946,801	1,792,549	1,926,480
South-East Europe	860,121	786,729	153,641	111,036
Central and Eastern Europe	616,325	691,090	119,356	124,897
Western Europe and overseas countries	242,093	235,414	586	472
	3,587,136	**3,660,034**	**2,066,132**	**2,162,885**

Information about major customers

Third-party sales in Croatia account for 52 % of the total revenue from external customers, whereas the remaining 48 % represent foreign sales. Top 20 customers account for 44 % of the external sales.

NOTE 6 – INVESTMENT REVENUE

	2009	2008
		(in thousands of HRK)
Interest on term deposits and trade debtors	8,952	8,095
Interest on loans	5,136	7,848
Impairment allowance on interest on loans and receivables	(10,731)	-
Revenue from the sale and leaseback transaction	2,867	2,867
Other (other interest + other revenue)	852	1,413
	7,076	**20,223**

Investment revenue analysed by asset category:

	2009	2008
		(in thousands of HRK)
Other financial assets	(1,876)	12,128
Receivables for interest on trade receivables and other receivables	8,952	8,095
	7,076	**20,223**

NOTE 7 – OTHER (LOSSES) / GAINS, NET

	2009	2008
		(in thousands of HRK)
Impairment losses on guarantees given	(133,166)	-
Impairment losses on loans and receivables	(129,947)	-
Impairment losses on brands	(39,270)	-
Impairment losses on intangible rights	(8,725)	-
(Losses) / gains on remeasurement of liabilities at fair value through statement of the comprehensive income	(16,907)	35,894
(Losses) / gains on disposal of non-current assets, net	(10,225)	1,303
Impairment losses on goodwill	(5,758)	(2,278)
Impairment losses on value adjustment, net	(5,966)	(8,324)
Grant income (subsidies)	4,755	8,190
Other adjustments	(369)	(1,674)
	(345,578)	**33,111**
Foreign exchange losses, net	(1,143)	(3,763)
	(346,721)	**29,348**

NOTE 8 – COST OF GOODS SOLD

	2009	2008
		(in thousands of HRK)
Raw material and supplies	1,591,050	1,651,819
Staff costs	328,798	340,148
Depreciation	100,148	102,002
Energy	56,556	47,313
Maintenance	21,151	24,068
Other	43,978	8,865
	2,141,681	**2,174,215**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
		(in thousands of HRK)
Staff costs	189,577	206,978
Depreciation	26,211	30,062
Services	27,285	35,200
Bank charges	11,374	12,794
Rental costs	16,261	16,277
Taxes and contributions independent of operating results	7,838	10,682
Other cost of material and energy	7,778	9,271
Telecommunications	6,181	7,786
Professional training and literature	4,604	4,948
Per diems	3,134	4,727
Entertainment	2,395	6,416
Other	10,696	13,458
	313,334	358,599
Capitalised development project costs	(13,469)	-
	299,865	358,599

NOTE 10 – SELLING AND DISTRIBUTION COSTS

	2009	2008
		(in thousands of HRK)
Staff costs	263,830	262,197
Rentals	56,944	56,576
Service costs	50,988	46,543
Transportation	45,897	48,288
Depreciation	26,846	24,595
Energy	24,152	29,546
Net provision for trade receivables	20,760	10,882
Consultancy services and one-off service agreement	11,797	15,338
Maintenance	11,367	13,464
Per diems	11,232	10,966
Other material costs	10,247	10,281
Entertainment	7,000	10,465
Telecommunications	7,107	7,985
Taxes and contributions independent of operating results	5,775	6,935
Professional literature, administrative duties and other	3,796	4,436
Inventory deficit	2,178	5,322
Other	13,461	12,860
	573,377	576,679

NOTE 11 – MARKETING EXPENSES

	2009	2008
		(in thousands of HRK)
Retail trader and consumer marketing	115,018	121,922
Media investments	87,558	106,004
Staff costs	68,509	69,678
Institutional advertising and promotion	56,259	55,502
Other marketing expenses	20,014	21,269
Entertainment	12,507	15,870
Services	8,485	9,204
Market research	5,886	5,603
Rental costs	4,509	5,944
Per diems	3,829	4,851
Taxes and contributions independent of operating results	3,333	3,365
Depreciation	2,289	2,577
Telecommunications	2,112	2,576
Energy	1,893	2,241
Other expenses	4,727	7,552
	396,928	**434,158**

NOTE 12 – OTHER EXPENSES

	2009	2008
		(in thousands of HRK)
Interest expense on trade payables	9,924	3,478
Other interest and finance costs	72	1,084
	9,996	4,562

NOTE 13 – EXPENSES BY NATURE

	2009	2008
		(in thousands of HRK)
Raw material and consumables used, energy and cost of goods sold	1,682,672	1,746,479
Staff costs	850,715	879,003
Advertising and promotion	267,320	292,631
Depreciation	156,537	160,024
Services	150,324	157,844
Rental costs	82,851	81,014
Transport	50,375	54,051
Entertainment	29,736	38,614
Taxes and contributions independent of operating results	27,133	35,464
Net provision for trade receivables	20,760	10,882
Per diems and travel expenses	19,730	23,046
Telecommunications	17,232	19,997
Bank charges	12,327	13,582
Other expenses	44,139	31,020
	3,411,851	**3,543,651**

NOTE 14 – STAFF COSTS

	2009	2008
		(in thousands of HRK)
Salaries	796,025	838,310
Share options	2,725	(11,521)
Termination benefits	27,682	20,571
Provisions for liabilities to employees	6,382	12,651
Transport	10,542	10,869
Other	7,359	8,123
	850,715	**879,003**

As at 31 December 2009, the number of staff employed by the Group was 6,534 (2008: 6,706).

In 2009, retirement benefits in the amount of HRK 39,869 thousand were accrued and paid for 350 employees, of which non-taxable in the amount of HRK 38,032 thousand (2008: HRK 10,350 thousand) and taxable in the amount of HRK 1,873 thousand, reported within salary costs (2008: HRK 20,571 thousand for 122 employees).

NOTE 15 – FINANCE COSTS

	2009	2008
		(in thousands of HRK)
Interest expense on long-term borrowings	26,203	19,928
Interest expense on short-term borrowings	41,597	48,973
Interest expense from issued bonds and other	21,587	21,656
Interest expense on commercial papers	9,845	-
	99,232	90,557
Net foreign exchange (gains) / losses on borrowings	**(1,184)**	**13,592**
	98,048	**104,149**

NOTE 16 – NET FOREIGN EXCHANGE GAINS/(LOSSES)

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

	2009	2008
	(in thousands of HRK)	
Other (losses) / gains, net	(1,143)	(3,763)
Net foreign gains / (losses) on borrowings	1,184	(13,592)
	41	**(17,355)**

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 % (2008: 19.5 %) applicable to the Group's result as follows:

	2009	2008
	(in thousands of HRK)	
(Loss)/Profit before taxation	**(272,404)**	**57,243**
Tax calculated at weighted average tax rates applicable to profits in the respective countries	11,530	11,162
Effect of permanent differences, net	8,806	8,681
Effect of tax benefits (research and development, education and other allowances)	(1,967)	(9,106)
Effect of utilised tax losses brought forward	(2,898)	(957)
Income tax expense recognised in statement of the comprehensive income	15,471	9,780

Unused tax losses:	2009	2008
	(in thousands of HRK)	
Unused tax losses	**162,085**	**167,022**

The availability of unused tax losses expires as follows:

	(in thousands of HRK)	
Up to 2009	-	539
Up to 2010	2,142	1,409
Up to 2011	60,804	69,079
Up to 2012	27,297	27,253
Up to 2013	68,742	68,742
Up to 2014	3,100	-

Deferred taxes are presented in the statement of financial position as follows:

	2009	2008
	(in thousands of HRK)	
Deferred tax liabilities	7,616	8,356
Deferred tax assets	53,589	44,552

In accordance with Croatian tax regulations, by the end of 2009 the Group realised tax losses in the amount of HRK 162,085 thousand (2008: HRK 167,022 thousand), which may be utilised up to 2014 at the latest. Unutilised tax losses are not recognised as deferred tax assets in the statement of financial position, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

Deferred tax assets arise from the following:

2009	Opening balance	Charged through statement of comprehensive income	Exchange differences	Closing balance
Temporary differences:				
Government subsidies	31,178	78	(77)	31,179
Assets under financial lease	106	-	-	106
Property, plant and equipment	103	(3)	(3)	97
Intangibles	-	7,854	-	7,854
Jubilee awards	3,193	(371)	-	2,822
Termination benefits	1,481	369	-	1,850
Vacation accrual	2,011	1,262	-	3,273
Impairment allowance on inventories	3,406	88	-	3,494
Other deferred tax assets – equity investments, future charges	3,074	(160)	-	2,914
	44,552	9,117	(80)	53,589

Deferred tax liabilities arise from the following:

2009	Opening balance	Charged through statement of comprehensive income	Exchange differences	Closing balance
Temporary differences:				
Adjustments to non-current assets	(287)	9	(2)	(280)
Adjustment of the fair value and carrying amount of the Farmavita assets	(8,069)	733	-	(7,336)
	(8,356)	**742**	**(2)**	**(7,616)**

2008	Opening balance	Charged through statement of comprehensive income	Exchange differences	Closing balance
Temporary differences:				
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
Government subsidies	-	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**

Deferred tax liabilities arise from the following:

2008	Opening balance	Charged through statement of comprehensive income	Exchange differences	Closing balance
Temporary difference:				
Adjustments to 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 – (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

Basic (loss)/earnings per share are determined by dividing the Group's net (loss)/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.

	2009	2008
Net (loss) /profit attributable to shareholders (in thousands of HRK)	(288,059)	47,606
Weighted average number of shares	5,243,961	5,322,219
Basic (loss)/earnings per share (in HRK)	**(54.93)**	**8.94**

Diluted (loss)/earnings per share

Diluted (loss)/earnings per share were calculated as the basic (loss)/earnings per share, including the impact of the number of share options granted to employees, of which 63,900 were not exercised (2008: 89,349 options).

	2009	2008
Net (loss)/profit attributable to shareholders (in thousands of HRK)	(288,059)	47,606
Weighted average number of shares	5,307,861	5,411,568
Diluted (loss)/earnings per share (in HRK)	**(54.27)**	**8.80**

NOTE 19 – DIVIDEND PER SHARE

On 22 July 2009, the Company's General Assembly reached a decision on the allocation of profit for the financial year 2008, by which it did not approve any distribution of dividends on ordinary shares but rather appropriated the entire profits to the Company's reserves.

On 22 July 2008, the Company's General Assembly reached a decision on the allocation of profit for the financial year 2007, by which it did not approve any distribution of dividends on ordinary shares bur rather appropriated the entire profits to the Company's reserves.

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
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	(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	(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**

Cost				
At 1 January 2009	2,110,031	1,669,684	102,790	3,882,505
Effect of changes in the foreign exchange rate	283	189	(415)	57
Additions	1,126	12,941	99,593	113,660
Transfers	31,305	46,477	(77,782)	-
Disposals and retirements	(13,031)	(46,524)	(11,497)	(71,052)
At 31 December 2009	**2,129,714**	**1,682,767**	**112,689**	**3,925,170**
Accumulated depreciation				
At 1 January 2009	916,550	1,195,097	-	2,111,647
Effect of changes in the foreign exchange rate	158	243	-	401
Additions	-	7,998	-	7,998
Disposals	(136)	(42,561)	-	(42,697)
Charge for the year	64,608	71,567	-	136,175
At 31 December 2009	**981,180**	**1,232,344**	**-**	**2,213,524**
Carrying amount at 31 December 2009	**1,148,534**	**450,423**	**112,689**	**1,711,646**

Group buildings and land worth HRK 722,905 thousand (2008: HRK 732,084 thousand) have been mortgaged against the Group borrowings.

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

	2009	**2008**
		(in thousands of HRK)
Cost of capitalised finance leases	94,058	83,741
Accumulated depreciation	(27,326)	(22,967)
Net book value	**66,732**	**60,774**

Restatement:

On 20 December 2007 the Group concluded a sale and leaseback agreement for assets as part of a financial lease arrangement, in which the Group acts as the lessee.

The Group recognised the entire income from the sale of those assets immediately following the conclusion of the agreement, which is not compliant with IAS 17 Leases. IAS 17 requires that, in case of sale and leaseback transactions under financial lease arrangements, the excess of proceeds over the carrying amount of the asset should not be recognised immediately as income in the financial statements of the seller (the lessee) but rather deferred and amortised over the period of the lease.

The 2009 financial statements have been adjusted to reflect the correction of the error in recognising the income from the sale and leaseback transaction so as to make it compliant with IAS 17.

The correction of the balances from the beginning of the comparative period (2007) has resulted in an increase in deferred income and an adjustment (decrease) of the opening balance of retained earnings in the amount of HRK 42,925 thousand. Based on the correction as of 31 December 2009, income and profit for the year have been increased by HRK 2,867 thousand (2008: HRK 2,867 thousand).

As at 31 December 2009, deferred income in respect of the sale and leaseback transaction amount to HRK 37,190 thousand (2008: HRK 40,058 thousand).

The effects of the corrections are presented in Note 3.3a).

NOTE 21 - GOODWILL

(in thousands of HRK)	**2009**	**2008**	**2007**
Cost			
At 1 January	73,969	54,442	52,460
Additions (see Note 42)	-	19,527	1,982
At 31 December	73,969	73,969	54,442
Accumulated impairment losses			
At 1 January	25,541	23,323	24,103
Impairment losses recognised during the year	5,758	2,278	-
Effect of changes in the foreign exchange rates	(207)	(60)	(780)
At 31 December	**31,092**	**25,541**	**23,323**
Carrying amount at 31 December	**42,877**	**48,428**	**31,119**

In 2009, the Group impaired the goodwill by HRK 5,758 thousand (HRK 2,278 thousand) based on the annual goodwill impairment test.

NOTE 22 – INTANGIBLE ASSETS

	2009	**2008**	**2007**
			(in thousands of HRK)
Cost	524,129	497,213	402,981
Accumulated amortization	(212,520)	(153,614)	(205,544)
	311,609	**343,599**	**197,437**

	2009	**2008**	**2007**
			(in thousands of HRK)
Brand	129,930	147,615	102,069
Software	84,014	70,622	10,672
Intangibles under construction	32,696	45,521	69,438
Distribution and other rights	10,634	23,981	15,258
Pharmaceutical rights	54,335	55,860	-
	311,609	**343,599**	**197,437**

(in thousands of HRK)	Software	Distribution rights	Brand	Investments in progress	Total
Cost					
At 1 January 2008	124,704	96,252	112,587	69,438	402,981
Effect of changes in the foreign exchange rates	(867)	(1,813)	24	-	(2,656)
Additions	(1,149)	3,359	-	59,759	61,969
Acquisition of subsidiary	56,448	46,513	-	-	102,961
Transfers	11,426	26,705	45,545	(83,676)	-
Disposals	(348)	(67,694)	-		(68,042)
At 31 December 2008	**190,214**	**103,322**	**158,156**	**45,521**	**497,213**
Accumulated amortisation					
At 1 January 2008	114,032	80,994	10,518	-	205,544
Effect of changes in the foreign exchange rates	(874)	(965)	23	-	(1,816)
Acquisition of subsidiary	267	-	-	-	267
Disposals	(347)	(67,694)	-	-	(68,041)
Charge for the year	6,514	11,146	-	-	17,660
At 31 December 2008	119,592	23,481	10,541	-	153,614
Carrying amount at 31 December 2008	70,622	79,841	147,615	45,521	343,599
Cost					
At 1 January 2009	190,214	103,322	158,156	45,521	497,213
Effect of changes in the foreign exchange rates	(31)	183	77	(152)	77
Additions	1,665	2,534	-	18,728	22,927
Capitalised projects	-	-	-	13,469	13,469
Tranbsfers	17,881	5,405	21,584	(44,870)	-
Disposals	(9,557)	-	-	-	(9,557)
At 31 December 2009	**200,172**	**111,444**	**179,817**	**32,696**	**524,129**
Accumulated amortisation					
At 1 January 2009	119,592	23,481	10,541	-	153,614
Effect of changes in the foreign exchange rates	(28)	53	76	-	101
Eliminated on disposal	(9,552)	-	-	-	(9,552)
Charge for the year	6,146	14,216	-	-	20,362
Impairment losses recognized during the year	-	8,725	39,270	-	47,995
At 31 December 2009	**116,158**	**46,475**	**49,887**	**-**	**212,520**
Carrying amount at 31 December 2009	**84,014**	**64,969**	**129,930**	**32,696**	**311,609**

In 2009, the impairment allowance on Franck distribution right amounts to HRK 7,200 thousand and the pharmacy rights in the amount of HRK 1,525 thousand (Drugstore Crnošija) was made.

At the end of the reporting period, the Group reassessed the recoverable amount of its brands and determined that the brands were impaired by HRK 39,270 thousand (LERO HRK 23,100 thousand; Warzywko HRK 16,170 thousand). No impairment was identified during 2008. The recoverable amount of the cash generating unit has been estimated on the basis of the discounted cash flow model.

The impairment losses on intangible assets have been reported in the statement of comprehensive income within 'Other (losses)/gains'.

NOTE 23 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country of incorporation	Ownership interest in %		Equity share in thousands of HRK		Principal activity
		2009	2008	2009	2008	
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	100.00	20	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	100.00	89,993	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 & Herzegovina	100.00	100.00	40	40	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	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	98.88	98.88	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
Podravka Lagris a.s., Lhota u Luhačovic	Czech Rep.	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
Podravka International, Turska	Turkey	75.00	-	15	-	Sale and distribution
				531,707	**531,692**	

During 2009, a new subsidiary was established, PODRAVKA International, Turkey, with a share capital of HRK 15 thousand.

During 2008, the Company acquired an equity share in the company Lero d.o.o., Rijeka, in the amount of HRK 89,993 thousand and an equity share in Farmavita d.o.o., Sarajevo, in the amount of HRK 71,944 thousand.

During 2008, a new entity was established, Podravsko ugostiteljstvo d.o.o., Koprivnica, with a share capital in the amount of HRK 20 thousand.

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

NOTE 24 – OTHER FINANCIAL ASSETS

	2009	2008	2007
			(in thousands of HRK)
Loans	9,353	57,807	54,544
Impairment allowance on loans	(3,332)	-	-
Other receivables and deposits	5,552	4,021	6,496
	11,573	61,828	61,040

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

During 2009 Group impaired long term loans in the amount of HRK 3,332 thousand (loan given to Sloga d.o.o., Koprivnica in the amount of HRK 2,500 thousand and THD Comerc in the amount of HRK 832 thousand)

NOTE 25 – INVENTORIES

	2009	2008	2007
			(in thousands of HRK)
Raw materials and supplies	219,607	213,124	216,292
Work in progress	42,415	44,432	55,515
Finished goods	214,450	212,094	186,059
Trade goods	170,367	162,110	136,656
	646,839	**631,760**	**594,522**

In 2009, a reversal of impairment losses in the amount of HRK 136 thousand was credited (2008: HRK 475 thousand charged), which is included in the statement of comprehensive income in line item 'Cost of goods sold' (note 8).

NOTE 26 – TRADE AND OTHER RECEIVABLES

	2009	2008	2007
			(in thousands of HRK)
Current receivables			
Trade receivables	1,179,505	1,297,734	1,040,275
Less: Provisions for impairment	(115,873)	(111,428)	(108,701)
Net trade receivables	1,063,632	1,186,306	931,574
Advances to suppliers	3,393	7,243	4,514
Short-term deposit	45,298	-	108,910
Loans given	61,487	18,542	625
Impairment allowance on loans	(61,197)	-	-
Bills of exchange received	25,256	3,199	31,794
Other receivables	49,105	71,609	76,469
Total current receivables	**1,186,974**	**1,286,899**	**1,153,886**

In 2009, an impairment allowance was made for loans in the amount of HRK 61,197 thousand (HRK 49,190 thousand in respect of Fima Grupa, HRK 10,757 thousand in respect of Gradec d.o.o., Križevci, HRK 1,250 thousand in respect of Sloga d.o.o., Koprivnica).

In 2009, the short-term deposit relates to a deposit with bank for the purpose of covering the difference in the price as per the Agreement on the Sale and Transfer of Podravka d.d. shares. The deposit funds are not available to the Group until the expiry of the Agreement and/or exercise of the options under the Agreement. Thus, the recovery of the deposit will depend on the final outcome in respect of the Agreement (See Note 3.3.c).

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

	2009	2008	2007
			(in thousands of HRK)
At 1 January	111,428	108,701	136,514
Increase	24,212	17,522	9,051
Amounts collected	(3,452)	(6,642)	(6,082)
Written off as uncollectible	(16,315)	(8,153)	(30,782)
At 31 December	**115,873**	**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

	2009	2008	2007
			(in thousands of HRK)
0-90 days	267,384	275,634	263,883
91-180 days	133,043	146,979	92,916
181-360 days	25,619	69,169	17,085
	426,046	491,782	373,884

Other receivables at 31 December were as follows:

	2009	2008	2007
			(in thousands of HRK)
Net VAT receivable	26,852	35,170	57,681
Prepaid expenses	11,698	12,834	3,115
Receivables in respect of interest accrued on given loans	11,266	8,143	1,393
Impairment allowance on loan interest receivable	(11,266)	(534)	(517)
Other receivables under forced collection proceedings	65,000	-	-
Impairment allowance on other financial receivables under forced collection proceedings	(65,000)	-	-
Other financial receivables in respect of guarantees paid	30,556	-	-
Impairment allowance on other financial receivables in respect of guarantees paid	(30,556)	-	-
Past due long-term loan receivables	1,381	131	131
Impairment allowance on past due long-term loan receivables	(1,381)	(131)	(131)
Prepaid income taxes	1,441	5,559	1,927
Receivables from employees	2,882	2,421	3,680
Other receivables – gross	7,268	9,052	10,405
Impairment allowance for other receivables	(1,036)	(1,036)	(1,215)
Total current receivables	**49,105**	**71,609**	**76,469**

Impairment allowances made during 2009 comprise the following:

Impairment allowance on other financial receivables under cancelled loans and forced collection in the amount of HRK 65,000 thousand in respect of a long-term loan approved to SMS d.o.o., Split, in 2007 ;

Impairment allowance on guarantees paid in the amount of HRK 30,556 thousand.

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 AND LOSS

	2009	2008	2007
			(in thousands of HRK)
Investments in:			
Investment funds	22,321	23,416	6,040
	22,321	23,416	6,040

Movements during the year are as follows:

	2009	2008
		(in thousands of HRK)
Opening net book value	23,416	6,040
Additions	8,989	33,700
Disposals	(4,088)	(8,000)
Effect of remeasurement at fair value	(5,996)	(8,324)
Closing net book value	**22,321**	**23,416**

In 2009, units in the total amount of HRK 8,489 thousand were purchased in the ST Invest Investment Fund, whereas units in the amount of HRK 3,488 thousand were sold. Also, a unit in the FIMA Equity fund, an open-end investment fund with public offering, was purchased in the amount of HRK 500 thousand, and a share in the amount of HRK 600 thousand was sold.

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

NOTE 28 – CASH AND CASH EQUIVALENTS

	2009	2008	2007
			(in thousands of HRK)
Cash with banks	114,384	262,812	109,895
Short-term deposits – up to 3 months	29,561	148,639	-
Cash in hand	647	500	413
Cheques, deposits and securities	677	7,297	2,241
	145,269	**419,248**	**112,549**

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

	2009	2008	2007
			(in thousands of HRK)
Property at the subsidiary Podravka Kft, Budapest	4,004	4,517	5,469
	4,004	4,517	5,469

NOTE 30 – SHARE CAPITAL

	2009	2008	2007
			(in thousands of HRK)
Ordinary shares	1,626,001	1,626,001	1,626,001
Capital gains	25,294	22,569	41,815
Own shares	(67,604)	(61,214)	(39,349)
	1,583,691	**1,587,356**	**1,628,467**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)				*(in thousands of HRK)*
At 1 January 2008	5,343,830	1,626,001	41,815	(39,349)	1,628,467
Purchase of treasury shares	(100,499)	-	-	(33,738)	(33,738)
Sale of treasury shares	1,042	-	(158)	424	266
Employee share options:					
- options exercised	22,953	-	(7,567)	11,449	3,882
- fair value of options	-	-	(11,521)	-	(11,521)
At 31 December 2008	5,267,326	1,626,001	22,569	(61,214)	1,587,356
At 1 January 2009	5,267,326	1,626,001	22,569	(61,214)	1,587,356
Purchase of treasury shares	(24,834)	-	-	(6,390)	(6,390)
Sale of treasury shares	-	-	-	-	-
Employee share options:					
- options exercised	-	-	-	-	-
- fair value of options	-	-	2,725	-	2,725
At 31 December 2009	5,242,492	1,626,001	25,294	(67,604)	1,583,691

As at 31 December 2009, the Company's share capital amounted to HRK 1,626,001 thousand, distributed among 5,420,003 shares (2008: 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 in.

The Employee Share Option Plan is described in detail in Note 40 to the financial statements.

NOTE 31 – RESERVES

	2009	2008	2007
			(in thousands of HRK)
Legal reserves	45,168	44,516	44,717
Other reserves	31,557	15,230	70,306
Reserves for treasury shares	35,345	26,014	6,712
Translation reserve	(2,245)	(2,302)	16,906
	109,825	**83,458**	**138,641**

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Translation reserve**	**Reserves for treasury shares**	**Total**
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**
At 1 January 2009	44,516	15,230	(2,302)	26,014	83,458
Transfer to reserves /ii/	652	16,327		9,331	26,310
Exchange differences	-	-	57	-	57
At 31 December 2009	**45,168**	**31,557**	**(2,245)**	**35,345**	**109,825**

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

According to the decisions of the Group General Assemblies HRK 625 thousand have been appropriated to legal reserves (Podravka d.d. HRK 491 thousand and Lagris a.s., Lhota, Luhačovic HRK 161 thousand). In statutory and other reserves in 2009 have been appropriated HRK 16,327 thousand (Podravka – Polska Sp.z.o.o. HRK 12,336 thousand, Belupo Group HRK 3,940 thousand, and Podravka d.o.o. Ljubljana HRK 51 thousand). Podravka d.d. appropriated HRK 9,331 thousand in treasury shares reserves.

According to the decision on the 2007 profit appropriation brought by the General Assembly in July 2008, HRK 181 thousand was appropriated to statutory reserves and HRK 19,302 thousand to treasury share reserve.

NOTE 32 – (ACCUMULATED LOSS)/RETAINED EARNINGS

	2009	2008	2007
			(in thousands of HRK)
(Accumulated losses)/retained earnings	(95,849)	218,520	134,939

	2009	2008
At 1 January	218,520	177,864
Effect of the correction of income from the sale and leaseback transaction	-	(42,925)
Restated opening balance	218,520	134,939
- Transfer to legal and other reserves	(26,310)	(7,838)
- Net (loss)/profit for the period prior to correction	(288,059)	44,739
- Effect of the correction of the income from the sale and leaseback transaction	-	2,867
- Coverage of loss	-	43,813
At 31 December	**(95,849)**	**218,520**

NOTE 33 – NON-CONTROLLING INTERESTS

	2009	2008
		(in thousands of HRK)
Balance at 1 January	34,113	-
Non-controlling interests on acquisition	-	34,170
Exchange differences	64	86
Share in the current year's profit/(loss)	184	(143)
Balance at 31 December	**34,361**	**34,113**

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

	2009	*2008*	*2007*
			(in thousands of HRK)
Issued bonds	*336,300*	*318,750*	*354,000*
	336,300	*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 statement of the financial position were as follows:

			2009			*2008*
	HRK	*EUR*	*Other*	*HRK*	*EUR*	*Other*
	%	*%*	*%*	*%*	*%*	*%*
Bonds issued	5.32	-	-	5.32	-	-

NOTE 35 – BORROWINGS

	2009	**2008**	**2007**
			(in thousands of HRK)
Non-current borrowings			
Banks in Croatia	41,940	43,327	67,313
Banks in foreign countries	376,165	525,161	16,954
Finance lease	34,811	29,084	29,231
	452,916	597,572	113,498
Current borrowings			
Banks in Croatia	376,396	792,452	422,059
Banks in foreign countries	423,339	60,358	223,715
Finance lease	4,851	3,716	3,008
Other	464	1,929	434
	805,050	**858,455**	**649,216**
Total borrowings	**1,257,966**	**1,456,027**	**762,714**

Bank borrowings in the amount of HRK 712,190 thousand (2008: HRK 647,716 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**	
	2009	**2008**	**2009**	**2008**	**2009**	**2008**
						(in thousands of HRK)
Up to 1 year	7,345	6,434	2,494	2,509	4.851	3.716
Between 1 and 5 years	27,072	15,389	10,078	7,919	16.994	7.470
After 5 years	23,179	29,878	5,362	8,473	17.817	21.614
Less: future finance charges	**(17,934)**	**(18,901)**	**(17,934)**	**(18,901)**	**39.662**	**32.800**
Present value of minimum lease payments	**39,662**	**32,800**			**39.662**	**32.800**

	2009	2008
Included in the financial statements within:		
Current borrowings	4,851	3,716
Non-current borrowings	34,811	29,084
	39,662	**32,800**

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

	2009	2008
		(in thousands of HRK)
6 months or less	466,326	1,282,648
6 – 12 months	284,663	135,912
1 – 5 years	506,977	37,467
Over 5 years	-	-
	1,257,966	**1,456,027**

If the interest rate on borrowings at variable rates increases by 4.14 % on average, the liability in respect of interest would increase by HRK 3,802 thousand (2008: for an interest rate increase of 5.88 %, the interest payable would increase by HRK 7,725 thousand).

The maturity of non-current borrowings is as follows:

	2009	2008
		(in thousands of HRK)
Between 1 and 2 years	121,023	116,803
Between 2 and 5 years	314,076	379,525
Over 5 years	17,817	101,244
	452,916	597,572

The effective interest rates at the reporting date were as follows:

	2009			2008		
	HRK	EUR	Other	HRK	EUR	Other
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	5.73	6.99	-	5.00	7.09	-
Banks in foreign countries	-	3.88	4.46	-	7.23	-
Finance lease	-	6.43	-	-	8.18	-
Other	-	-	8.53	-	-	9.38
Current borrowings						
Banks	6.99	6.94	5.24	8.21	7.51	4.85
Other	5.00	-	-	5.00	-	-

During 2009, the existing long-term borrowings were repaid in accordance with the 2009 repayment schedule. During 2009, Belupo d.d. utilised a new long-term loan for fixed assets provided by Raiffeisenbank, Klagenfurt, in the amount of EUR 4.5 million for a period of 5 years and with an interest rate of 1-month EURIBOR + 2.45 % p.a., and Danica d.o.o. used a long-term loan for fixed assets provided by Podravska banka Koprivnica in the amount of EUR 2,185,000 for a term up to 1 October 2010, with an interest rate of 8.6 % annually.
Podravka d.d. issued the first tranche of commercial papers in the amount of EUR 18 million, with an interest of 9.05%, at the issue price of 91.722 %, a maturity of 364 days, with Raiffeisenbank Austria d.d., Zagreb, as the dealer. The commercial papers are included within current borrowings.
The carrying amounts and fair values of non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2009	2008	2009	2008
				(in thousands of HRK)
Non-current borrowings				
Banks in Croatia	41,940	43,327	42,093	42,869
Banks in foreign countries	376,165	525,161	376,165	525,161
Finance lease	34,811	29,084	34,811	29,084
	452,916	**597,572**	**453,069**	**597,114**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 2.71 % (2008: 5.78%).

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 Group's borrowings are denominated in the following currencies:

	2009	2008
	(in thousands of HRK)	
HRK	206,266	659,815
EUR	938,340	704,319
Other currencies	113,360	91,893
	1,257,966	**1,456,027**

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:

	2009	2008
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	96,293	107,970
	96,293	107,970

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	Legal actions	Total
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
At 1 January 2009	16,450	11,892	8,153	2,363	5,156	44,014
Charged/(credited) to profit or loss:						
Increase of provisions	-	13,594	1,710	1,077	7,130	23,511
Utilised during the year	(2,080)	(7,954)	(102)	(791)	(2,884)	(13,811)
At 31 December 2009	14,370	17,532	9,761	2,649	9,402	53,714
Analysis of total provisions as at 31 December 2009:						
Non-current	12,154	-	9,634	102	7,336	29,226
Current	2,216	17,532	127	2,547	2,066	24,488
	14,370	17,532	9,761	2,649	9,402	53,714

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 2009.

The current amount of employee benefits includes HRK 17,532 thousand in respect of unused vacation days, HRK 2,674 thousand in respect to annual bonuses and retirement incentives to executives, and HRK 2,216 thousand in respect of annual awards that will be paid in 2010.

Termination benefits

In 2009, a long-term provision of HRK 9,634 thousand for regular termination benefits was made (2008: HRK 8,041 thousand).

Legal actions

This provision relates to certain legal proceedings initiated against the Group. The provision expense is included 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 2009.

NOTE 37 – TRADE AND OTHER PAYABLES

	2009	*2008*	*2007*
			(in thousands of HRK)
Trade payables	533,918	652,920	615,829
Other liabilities	315,159	231,591	188,792
	849,077	**884,511**	**804,621**

At 31 December 2009 and 31 December 2008, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.
Other liabilities include the following:

	2009	**2008**	**2007**
			(in thousands of HRK)
Accrued expenses in respect of a guarantee given	102,610	-	-
Accrued expenses	68,108	67,269	38,689
Salaries and other benefits to employees	62,942	74,545	66,675
Deferred lease income	37,190	40,058	42,925
Accrued interest not yet due on bonds and borrowings	18,017	27,454	18,340
Taxes, contributions and other duties payable	10,499	8,531	7,721
Advances received	2,713	2,986	3,506
Dividends payable	1,772	1,780	2,087
Packaging waste disposal fee payable	6,924	(657)	5,533
Other	4,384	9,625	3,316
	315,159	**231,591**	**188,792**

In 2009, Group accrued HRK 102,610 thousand for the bill of exchange issued by Fima Grupa d.d. Varaždin to Erste Faktoring d.o.o. where the Group was guarantor (Note 45).

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

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

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2009 by the actuaries of the firm Aktuarijat Sanjković d.o.o. At 31 December 2009, the Group made a provision of HRK 14,370 thousand for jubilee awards and HRK 9,761 thousand for regular retirement benefits.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2008 by the actuaries of the firm Aktuarijat Sanjković d.o.o. At 31 December 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:

	2009	**2008**
Discount rate	6.2 %	6.4-7.65%
Fluctuation rate	4.88 – 10.00 %	3.71-10.34%
Average expected remaining working lives (in years)	22	22

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

	2009	2008
	(in thousands of HRK)	
Current service cost	1,061	1,330
Interest expense	1,252	1,395
Net actuarial (loss)/gain for the year	(1,116)	169
Benefits paid	(2,090)	(2,177)
Other actuarial adjustments	421	776
	(472)	**1,493**

The amount reported in the statement of financial position in respect of defined retirement benefits and jubilee awards:

	2009	2008
	(in thousands of HRK)	
Present value of jubilee awards	14,370	16,450
Present value of termination benefits	9,761	8,153
Obligation reported in the statement of financial position	**24,131**	**24,603**

Of which by maturity:

	2009	2008
	(in thousands of HRK)	
Short-term	2,343	2,220
Long-term	21,788	22,383
	24,131	**24,603**

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

	2009	2008
	(in thousands of HRK)	
At 1 January	24,603	23,110
Current service cost	1,061	1,330
Interest expense	1,252	1,395
Actuarial(losses)/gains	(1,116)	169
Benefits paid	(2,090)	(2,177)
Other actuarial adjustments	421	776
At 31 December	**24,131**	**24,603**

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 a 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 reporting date was as follows:

	2009	2008
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	1,594,266	1,774,777
Cash and cash equivalents	(145,269)	(419,248)
Net debt	1,448,997	1,355,529
Equity	1,597,667	1,889,334
Net debt to equity ratio	90.69%	71.75%

Debt is defined as long- and short-term borrowings and bonds. 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.

Categories of financial instruments

	2009	2008
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,318,560	1,764,776
Held-to-maturity investments – bills of exchange	25,256	3,199
Financial assets at fair values		
Financial assets at fair value through profit or loss	26,325	27,933
Financial liabilities		
Finance lease obligations	39,662	32,800
Borrowings	1,218,304	1,423,227
Trade payables and other liabilities	910,407	936,881
Financial liabilities at fair value		
Financial liabilities at fair value	336,300	318,750

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)

Volatility in food material prices is a pervasive element of the Group's business environment.

The Purchase function has been centralised, which in itself provides the Group 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. The Group does not use any forward agreements to manage its exposure to the risk of fluctuation in food material prices.

Sales function based risk

The Group generates approximately 52.09 % of its revenue on the domestic market, whereas around 47.91 % of the sales are generated on international markets, mainly through related entities. The Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

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	
	2009	2008	2009	2008
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	1,078,655	871,169	256,275	307,868
USA (USD)	11,461	12,005	8,152	6,247
Other currencies	196,105	157,759	304,018	259,547

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 2.5 % increase (2008: a 3.04 % decrease) in Croatian kuna against the relevant foreign currencies. 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	
	2009	2008	2009	2008
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	-	8,031	123	62
Loss	16,186	-	-	-

	Impact of other currencies	
	2009	2008
	(in thousands of HRK)	
Profit	-	5,684
Loss	2,375	-

The exposure to the fluctuations in exchange rates by 2.54 % is mainly attributable to the borrowings, trade payables and trade receivables denominated in Euro (EUR) and US dollar (USD).

39.7. Interest rate risk management

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

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting 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 2009 would have changed by HRK 3,802 thousand (2008: 7,725 thousand).

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

39.8. Other price risk

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

39.9. Credit risk management

Credit risk refers to the risk that 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 relation to shopping malls.

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

30.10. Liquidity risk management

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

Liquidity and interest rate tables

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

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

	Weighted average effective interest rate	**Less than 1 month**	**1-3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Total**
	%						*(in thousands of HRK)*
2009							
Non-interest bearing		674,330	123,582	42,179	13,793	55,289	909,173
Financial liabilities at fair value	5.32	1,628	3,106	14,480	343,514	-	362,728
Interest bearing	5.49	13,467	487,049	334,068	606,684	25,127	1,466,395
		689,425	613,737	390,727	963,991	80,416	2,738,296
2008							
Non-interest bearing		680,579	128,239	54,544	13,404	60,116	936,882
Financial liabilities at fair value	5.32	1,628	3,098	14,388	345,178	-	364,292
Interest bearing	7.15	43,842	330,090	548,612	643,083	110,816	1,676,443
		726,049	461,427	617,544	1,001,665	170,931	2,977,617

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 412,493 thousand (2008: HRK 497,440 thousand) and amounts due to employees in the amount of HRK 63,603 thousand (2008: HRK 64,646 thousand).

The non-interest bearing liabilities of the Group due in a period of over five years include, among others, other long-term liabilities in the amount of HRK 36,842 thousand (2008: HRK 35,695 thousand).

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

The tables below detail the remaining contractual maturities of the Group's assets presented on the statement of the financial position 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)*
2009							
Non-interest bearing		813,519	199,091	120,597	9,683	-	1,142,890
Interest bearing	1.21	141,538	49,376	2,866	3,846	4,177	201,803
		955,057	248,467	123,463	13,529	4,177	1,344,693
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	4,471	513,758
		1,124,971	393,471	215,404	69,147	4,471	1,807,464

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 between 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 2009, 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 2006, and those applicable in the years, 2007, 2008 and 2009.

The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the beginning of the business year. Options are acquired separately for each business year.

Options granted to Podravka d.d. employees

The exercise period for the options granted until 2007 can be exercised after two to five years following the year in which they were acquired and are no longer exercisable upon the expiry of five years from the year in which they were acquired.
Those acquired in 2007 can be exercised within six months after two years from the year in which they were granted.
Options granted in 2008 can be exercised after minimum one and maximum three years after the year in which they were granted.

Options granted to Belupo d.d. employees

The exercise period for the options granted in 2007, 2008 and 2009 to the employees of Belupo d.d. starts two years from the year in which they were granted and lasts six months.

All the terms and conditions apply, unless circumstances arise as provided in each of the contracts applicable to the periods that implies an early termination of a mandate, breach of contractual provisions, relocation within the company, etc., in which case such an option generally becomes exercisable within six months from the occurrence of any of the circumstances described above.

The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The following serial shares under share-based payment arrangements were effective in the current and comparative reporting periods:

Option series	Number of options	Grant date	Exercise date	Exercise price	Fair value at the grant date
Series 31/12/2004	10,000	2004	2009	198.04	239.00
Series 31/12/2005	8,750	2005	2010	296.69	318.00
Series 31/12/2007	33,800	2007	2010	535.25	510.00
Series 31/12/2008	36,799	2008	2011	361.14	261.00

Options granted during 2009

Series 31/12/2009	9,800	2009	2012	238.39	296.99

Inputs

	Option series				
	Series 31/12/2004	*Series 31/12/2005*	*Series 31/12/2007*	*Series 31/12/2008*	*Series 31/12/2009*
Grant date share price	239.00	318.00	510.00	261.00	296.99
Exercise price	198.04	296.69	535.25	361.14	238.39
Expected volatility	29.84%	23.33%	21.11%	25.49%	33.86%
Option life	5	5	2.5	2.5 and 3	2.5
Risk-free interest rate	5.500%	6.875%	6.813%	6.833%	6.813%

Overview of option balances and exercised options

	2009		**2008**	
	Number of options	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
Balance at beginning of year	89,349	402.44	98,089	341.90
Granted during the year	9,800	238.39	36,799	361.14
Forfeited during the year	(35,249)	471.92	(22,586)	309.29
Exercised during the year	-	-	(22,953)	169.16
Balance at end of year	63,900	338.95	89,349	402.44

Outstanding at the year end

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 31/12/2004	10,000	2004	2009	198.04	239.00
Series 31/12/2005	4,500	2005	2010	296.69	318.00
Series 31/12/2007	9,800	2007	2010	535.25	510.00
Series 31/12/2008	29,800	2008	2011	361.14	261.00
Series 31/12/2009	9,800	2009	2012	238.39	296.99
At 31 December 2009	**63,900**				

As at 31 December 2009, 63,900 options became vested (2008: 89,349 options). In 2009, 14,500 exercisable options were not exercised (2008: 18,750 options). There were no unexercised options in 2009 (2008: 22,953 options). The weighted average remaining validity of options is 590 days at 31 December 2009 (2008: 839 days).

NOTE 41– RELATED PARTY TRANSACTIONS

	2009	2008
EXPENSES	*(in thousands of HRK)*	
Remuneration to the Management Board members and executives		
Salaries	55,048	66,219
Share options statement of comprehensive income	3,354	(11,521)
	58,402	**54,698**

NOTE 42 – ACQUISITION OF SUBSIDIARIES

In 2009, there were no acquisitions at the Group level.

42.1. Subsidiaries acquired in 2008

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

42.2. Analysis of acquired assets and liabilities

Lero d.o.o.

	Carrying amount	Adjustment	Fair value
Non-current assets	88,649	-	88,649
Current assets	4,662	-	4,662
Cash and cash equivalents	20	-	20
Current liabilities	(4,662)	-	(4,662)
Net assets acquired	**88,669**		**88,669**
Goodwill		**-**	**1,324**
Cost of acquisition		**-**	**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 selling purposes, with the fair value of the fixed assets contributed to the company's capital being appraised on its establishment. The company was established and sold during 2008. As a result, the carrying amounts presented above approximate the fair value of the company.

Acquirees of Belupo d.d. during 2008:

Farmavita d.o.o.

	Carrying amount	Adjustment	Fair value	Attributable 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 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 and other payables	(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.

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 considerations to acquire Lero d.o.o., Farmavita d.o.o. and the drugstores were paid in cash.

42.4. Net outflow on acquisitions

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

42.5. Goodwill arisen on acquisition

	(in thousands of HRK)
Total consideration paid	230,232
Net assets acquired	(244,875)
Non-controlling interests	34,170
Goodwill	**19,527**

42.6. Impact of acquisitions on the results of the Group

Included in the year 2008 profit are losses related to the acquisitions noted above, which were as follows: a loss of HRK 1,250 thousand related to the acquisition of Lero d.o.o., a loss of HRK 265 thousand related to the acquisition of Farmavita d.o.o., and a loss of HRK 82 thousand related to the acquisition of the drugstores.

Had these business combinations been effected at 1 January 2008, the revenue of the Group from continuing operations would have been HRK 3,792,599 thousand, and the profit for the year 2008 from continuing operations would have been HRK 37,830 thousand. The directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of the performance of the combined group on an annualised basis, whereas a growth in sales and a more positive effect on the Group's profit is expected 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 directors have:

- calculated depreciation 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 acquiree as a one-off pre-acquisition transaction.

NOTE 43 – CONTINGENT LIABILITIES

	2009	2008
	(in thousands of HRK)	
Legal actions	5,127	3,135
Agreed with suppliers of fixed assets not yet realised	2,595	25,933
Guarantees and warranties given outside the Group	12,914	12,874
Guarantees and warranties given within the Group	362,949	389,048
	383,585	**430,990**

With respect to other legal proceedings and guarantees granted, contingent liabilities have not been recognised in the statement of financial position as at 31 December, as the Management estimated that as at 31 December 2009 and 2008 no contingent liability will arise for the Group.

NOTE 44 – COMMITMENTS

In 2009, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 2,595 thousand (2008: HRK 25,933 thousand), which are not yet realised or recognised in the statement of financial position.

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

	2009	2008
	(in thousands of HRK)	
Not later than 1 year	46,102	39,583
Later than 1 year and not later than 5 years	59,345	66,186
Thereafter	2,250	-
	107,697	**105,769**

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 8 February 2010, the second tranche of the commercial papers was issued, with Raiffeisenbank Austria d.d. (RBA), as the dealer. The total nominal amount of the tranche is HRK 130,000 thousand, the yield is 9.15 per cent, the issue price is 91.638 per cent, and the maturity is 364 days. The funds collected were used to redeem the first tranche of the commercial papers in the amount of EUR 18 million.

On 26 January 2010, a loan of HRK 97,080,093, provided by Erste&Steiermaerkische Bank d.d. Zagreb, was utilized to discharge the liability under the bill of exchange of Fima Grupa d.o.o. to Erste Faktoring d.o.o. (with Podravka acting as guarantor).

NOTE 46 – APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorised for issue on 30 March 2010.

Miroslav Vitković

President of the Management Board

This Annual Report contains forward looking statements which reflect Management Board's current views and estimates. The forward looking statements include certain risks and uncertainties that might cause actual results to differ from those contained in the forward looking statements. Potential risks and uncertainties include such factors as general economic conditions, fluctuations of foreign exchange rate, competitive product and pricing pressures and regulatory developments.

In case of doubt or differences of interpretation, the Croatian version shall prevail over the English text.