PODRAVKA d.d., Koprivnica

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

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

Miroslav Vitković

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 30 March 2010

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Hrvatska
Porezni broj 0700851

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

We have audited the accompanying unconsolidated financial statements of Podravka d.d., Koprivnica ('the Company'), which comprise the unconsolidated statement of financial position as at 31 December 2009, and the related unconsolidated statement of comprehensive income, unconsolidated statements of changes in shareholders' equity and unconsolidated 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 Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Matters affecting the opinion

As discussed in Note 3.3 b) to the unconsolidated financial statements, the Company 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 unconsolidated financial statements of the Company. Based on these two available agreements, as of the date of the approval of the unconsolidated financial statements, the Company should have reported 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 Company 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 Company 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 unconsolidated 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 unconsolidated 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 unconsolidated financial statements present fairly, in all material respects, the financial position of the Company 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.

Emphasis of matter

Without further qualifying our opinion, we draw attention to the fact that the Company has prepared these unconsolidated financial statements under the Croatian laws and regulations and that the investments in subsidiary and associated undertakings have been presented in these unconsolidated financial statements at cost. In addition, the Company has prepared separate consolidated financial statements for Podravka d.d. and its subsidiaries, dated 30 March 2010. For a better understanding of the Group as a whole, the consolidated financial statements should be read in conjunction with these financial statements.

Deloitte d.o.o., Zagreb
Branislav Vrtačnik, Certified Auditor

30 March 2010

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of HRK)	**Notes**	**2009**	**2008** As restated
Sales	5	1,901,137	2,166,776
Cost of goods sold	8	(1,256,702)	(1,500,184)
Gross profit		**644,435**	**666,592**
Investment income	6	51,049	110,365
Other (losses)/gains, net	7	(340,018)	27,745
General and administrative expenses	9	(194,779)	(230,209)
Selling and distribution costs	10	(267,615)	(297,884)
Marketing expenses	11	(146,794)	(187,993)
Other expenses	12	(9,175)	(4,227)
Finance costs	15	(77,211)	(80,715)
(Loss) / profit before tax		**(340,108)**	**3,674**
Income tax expense	17	7,509	9,015
Net (loss) / profit for the year		**(332,599)**	**12,689**
Other comprehensive income		-	-
Total comprehensive (loss) / income for the year		**(332,599)**	**12,689**
(Loss) / Earnings per share:	18		
- Basic		(63.43)	2,38
- Diluted		(62.97)	2,35

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

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of HRK)	Notes	31/12/2009	31/12/2008	01/01/2008
			As restated	As restated
ASSETS				
Non-current assets				
Property, plant and equipment	20	1,000,627	1,066,249	1,079,784
Intangible assets	21	169,728	208,464	164,409
Investments in subsidiaries	22	531,707	531,692	441,679
Deferred tax assets	17	16,524	9,015	-
Other financial assets	23	224,043	270,033	226,551
Total non-current assets		**1,942,629**	**2,085,453**	**1,912,423**
Current assets				
Inventories	24	285,185	296,789	277,730
Trade and other receivables	25	792,789	866,652	878,251
Financial assets at fair value through profit and loss	26	22,321	23,416	6,040
Cash and cash equivalents	27	77,582	371,086	54,270
Total current assets		**1,177,877**	**1,557,943**	**1,216,291**
Total assets		**3,120,506**	**3,643,396**	**3,128,714**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	28	1,582,982	1,587,356	1,628,467
Reserves	29	42,194	32,372	28,744
Accumulated losses	30	(372,657)	(30,236)	(39,297)
Total equity		**1,252,519**	**1,589,492**	**1,617,914**
Non-current liabilities				
Financial liabilities at fair value through profit and loss	31	336,300	318,750	354,000
Long-term borrowings	32	385,519	468,335	76,197
Provisions	33	19,263	18,302	18,033
Total non-current liabilities		**741,082**	**805,387**	**448,230**
Current liabilities				
Trade and other payables	34	558,435	606,233	554,277
Short-term borrowings	32	556,786	633,467	498,416
Provisions	33	11,684	8,817	9,877
Total current liabilities		**1,126,905**	**1,248,517**	**1,062,570**
Total liabilities		**1,867,987**	**2,053,904**	**1,510,800**
Total liabilities and shareholders' equity		**3,120,506**	**3,643,396**	**3,128,714**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of HRK)	Notes	Share capital	Reserves	Retained earnings/ (Accumulated loss)	Total
Balance at 1 January 2007 – before restatement	28,29,30	**1,628,467**	**28,744**	**3,628**	**1,660,839**
Effect of correction regarding property sale and leaseback	3.3 a)	-	-	(42,925)	(42,925)
Balance at 31 December 2007 As restated		**1,628,467**	**28,744**	**(39,297)**	**1,617,914**
Net profit for the year as originally reported		-	-	9,822	9,822
Effect of correction of the property sale and leaseback transaction		-	-	2,867	2,867
Net profit for the year as restated		**-**	**-**	**12,689**	**12,689**
Purchase of treasury shares		(33,738)	-	-	(33,738)
Sale of treasury shares		266	-	-	266
Options exercised		3,882	-	-	3,882
Fair value of share options		(11,521)	-	-	(11,521)
Transfer to other and legal reserves		-	3,628	(3,628)	-
Balance at 31 December 2008 As restated	28,29,30	**1,587,356**	**32,372**	**(30,236)**	**1,589,492**
Net loss for the year		-	-	(332,599)	(332,599)
Total expenses recognised in 2009		-	-	(332,599)	(332,599)
Purchase of treasury shares		(6,390)	-	-	(6,390)
Fair value of share options		2,016	-	-	2,016
Transfer to other and legal reserves		-	9,822	(9,822)	-
Balance at 31 December 2009	28,29,30	**1,582,982**	**42,194**	**(372,657)**	**1,252,519**

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

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	**(332,599)**	**12,689**
Deferred tax	(7,509)	(9,015)
Depreciation	86,857	90,893
Losses / (gains) on disposal of non-current assets	8,544	(4,096)
Value adjustment of current assets	23,795	4,168
Value adjustment of non-current assets	46,470	-
Value adjustment of investment	5,996	8,324
Value adjustment of capital loss/(gains)	2,016	(19,246)
Value adjustment of liabilities at fair value through profit or loss	16,907	(35,894)
Long-term provisions	961	-
Interest received	(32,250)	(27,983)
Interest paid	89,603	77,523
Value adjustment of receivables for loans and guarantees	263,113	-
Effect of changes in foreign exchange rates	(4,374)	6,377
Other items not affecting cash	110	664
Changes in working capital:		
Decrease/(increase) in inventories	13,358	(17,882)
Decrease/(increase) in trade receivables	37,331	(153,908)
Increase in current assets	(18,267)	(25,070)
(Decrease)/increase in trade payables	(158,010)	15,351
Increase in other liabilities	8,011	25,693
Net cash generated from / (used in) operations	**50,063**	**(51,412)**

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

STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2009

(in thousands of HRK)	**2009**	**2008** As restated
Cash flows from operating activities		
Cash generated from / (used in) operations	50,063	(51,412)
Interest paid	(93,714)	(64,535)
Net cash used in operating activities	**(43,651)**	**(115,947)**
Cash flows from investing activities		
Acquisition of equity interest	(235)	(90,013)
Purchases of tangible and intangible assets	(43,538)	(132,759)
Sale of tangible and intangible assets	3,158	12,575
Long-term loans and deposits given	-	(14,181)
Repayment of long-term loans and deposits given	67,900	65,610
Purchase of trading securities	(8,989)	(33,700)
Sale of trading securities	4,088	8,000
Short-term loans and deposits given	(315,619)	(979)
Repayment of short-term loans and deposits given	186,130	108,910
Loan interest received	16,945	10,299
Net cash used in investing activities	**(90,160)**	**(66,238)**
Cash flows from financing activities		
Purchase of treasury shares	(6,390)	(33,738)
Sale of treasury shares	-	11,873
Proceeds from long-term borrowings	-	407,783
Repayment of long-term borrowings	(28,367)	(42,024)
Proceeds from short-term borrowings	413,580	703,840
Repayment of short-term borrowings	(538,516)	(548,733)
Net cash (used in)/from financing activities	**(159,693)**	**499,001**
Net (decrease) / increase in cash and cash equivalents	**(293,504)**	**316,816**
Cash and cash equivalents at the beginning of year	371,086	54,270
Cash and cash equivalents at the end of year	77,582	371,086

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

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

As at 31 December 2009, the Company’s shares were included in the Official Market (First Quotation) listing on the Zagreb Stock Exchange.

Principal activities

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

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

Corporate governance and management

General Assembly

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

President	Branko Vuljak

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Supervisory Board

Supervisory Board members during 2009:

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Management Board during 2009:

President	Zdravko Šestak *(until 18 November 2009)*
President	Miroslav Vitković *(as of 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 addopted 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

2.1. 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' (effective from 1 January 2009). 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 balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company 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 Company has applied the amended IFRS 2 in the 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'* (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The adoption of the Standard did not have any impact on the Company's financial statements.

IFRS 8 Operating Segments - IFRS 8 is a disclosure Standard that has resulted in a redesignation of the reportable segments. 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 to 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. TheIAS 23 (Amendment) is currently not applicable to the Company, as there are no qualifying assets at the Company the construction of which would require any borrowed funds.

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

2.1. Standards and Interpretations effective in the current period (continued)

IFRS 1 (Amendment) 'First time adoption of IFRS', and IAS 27 'Consolidated and separate financial statements'(effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The application of the amended Standard did not have any impact on the Company'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 Company has applied the IAS 36 (Amendment) and provided the required disclosure in Note 21 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. 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 did not have an impact on the Company'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 Company's financial statements.

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

2.1. Standards and Interpretations effective in the current period (continued)

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 Company'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 did not have an impact on the Company's operations because none of the Company's companies ordinary activities comprise renting and subsequently selling assets.

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

2.2. Standards and Interpretations early adopted by the Company

The Company 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 Company's operations

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

IAS 20 (Amendment) 'Accounting for Government Grants and Disclosure of Government Assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with IAS 39, 'Financial instruments: Recognition and measurement', and the proceeds received with the benefit accounted for in accordance with IAS 20. The amendment did not have an impact on the Company's operations.

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 requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial instruments: Presentation', and IFRS 7 'Financial Instruments: Disclosure'.

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

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment did not have an impact on the Company's operations as no agricultural activities are undertaken.

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

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

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 Company's operations because the Company 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 Company'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 Company.

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

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 Company will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

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

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

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 Company 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.

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

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

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 Measurment (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 – SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

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

The Company maintains its accounting records in the Croatian language, in Croatian kuna and in accordance with Croatian law and the accounting principles and practices observed by enterprises in Croatia.

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

The Company has issued these non-consolidated financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2008 and for the year then ended, in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 30 March 2010. In the consolidated financial statements, subsidiary undertakings (listed in Note 22) – which are those companies in which the Company, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2009 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

3.3. MATTERS AFFECTING PRIOR YEARS

3.3. a) Restatement of prior periods

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

The Company 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 an error in recognising the income from the sale and leaseback transaction so as to make it compliant with IAS 17, and the prior-year comparative financial statements have been restated accordingly.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (continued)

3.3. a) Restatement of prior periods (continued)

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 amount 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 on the financial position at 31 December 2007			
Deferred income – sale and leaseback transaction	-	42,925	42,925
Total liabilities	**1,467,875**	**1,510,800**	**42,925**
Retained earnings / (Accumulated losses)	3,628	(39,297)	(42,925)
Total equity	**1,660,839**	**1,617,914**	**(42,925)**
Statement on the comprehensive income for the year ended 31 December 2007			
Revenue from the sale and leaseback transaction	43,010	85	(42,925)
Profit for the year	**3,628**	**(39,297)**	**(42,925)**

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (continued)

3.3. a) Restatement (continued)

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 on the financial position at 31 December 2008				
Deferred income – sale and leaseback transaction	34	-	40,058	40,058
Total liabilities		**2,013,846**	**2,053,904**	40,058
Retained earnings / (Accumulated losses)	30	9,822	(30,236)	(40,058)
Total equity		**1,629,550**	**1,589,492**	**(40,058)**
Statement on the comprehensive income for the year ended 31 December 2008				
Revenue from the sale and leaseback transaction		-	2,867	2,867
Profit for the year	**30**	**9,822**	**12,689**	**2,867**

3.3. b) Option agreements

The Company 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 Company 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:

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (continued)

3.3. b) Option agreements (continued)

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 Company is currently under formal investigation 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 carried out beyond the provision 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 financial statements and properly reflected those risks, based on its best estimate, in the accompanying financial statements. The completion and final outcome of the investigation may require consideration of potential additional adjustments. Based on the current information, the present Management Board has taken all steps required in connection with the inclusion of the known effects in the accompanying 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 financial statement.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Investments in subsidiaries

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

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

3.5. Non-current assets held for sale

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

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

3.6. Revenue recognition

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Revenue recognition (continued)

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

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

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

(b) Sales – retail products and goods

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

(c) Service sales

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

(d) Interest income

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

(e) Dividend income

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

3.7. Leases

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Foreign currencies

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

As at 31 December 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).

3.9. Borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

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 Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.10. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 37.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company’s estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 Share-based payments (continued)

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 balance sheet date.

3.11. 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.

3.12. Operating segment reporting

The Company 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 Company 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 Company's reportable segments has changed. Details of operating segments are disclosed in Note 5 to the financial statements.

3.13. Taxation

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

Current taxes

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

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Taxation (continued)

Deferred tax (continued)

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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

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

Current and deferred tax for the period

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

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

Value added tax

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Property, plant and equipment

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

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

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

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

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

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

3.15. Intangible assets

Licences and distribution rights

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

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

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over the estimated useful lives of those licences.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16. Impairment of tangible and intangible assets

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

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

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

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

3.17. Inventories

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

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

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

Small inventory and tools are expensed when put into use.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Trade receivables

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

3.19. Cash and cash equivalents

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

3.20. 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 (capital gains).

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

3.21. Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Employee benefits (continued)

(c) Regular termination benefits

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

(d) Long-term employee benefits

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

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

(e) Short-term employee benefits

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

(f) Share-based compensation

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each 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 Company has a detailed formal plan for the restructuring that has been communicated to parties concerned.

3.23. Financial assets

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

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

Effective interest method

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 36.

Held-to-maturity investments

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

Available-for-sale financial assets (AFS)

Unlisted shares and listed redeemable notes held by the Company that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 36. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

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

Loans and receivables

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

Impairment of financial assets

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in 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 (shares), impairment losses previously recognised through statement of comprehensive income are not reversed through statement of comprehensive income. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

Derecognition of financial assets

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

3.24. Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

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

Financial liabilities

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 36.

Other financial liabilities

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Derecognition of financial liabilities

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

3.25. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During 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. There have been no changes in the useful lives of non-current assets during 2008.

Impairment of non-current assets

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, terminal 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, the Company impaired its intangible assets – brands – by HRK 39,270 thousand and distribution rights by HRK 7,200 thousand (note 21). In 2008, no impairment resulted from the calculation of the future cash flows.

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

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. In 2008, the management of the Company has for the first time recognised in the financial statements deferred tax assets in respect of temporary differences. No restatement of the prior-period figures has been made, since the effect on the prior periods is not material. During 2009, deferred tax assets in respect of available tax differences were recognised.

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 Provisions for retirement bonuses and jubilee awards amounted to HRK 5,641 thousand and HRK 9,388 thousand, respectively (2008: the total provisions amounted to HRK 16,638 thousand) (see notes 33 and 35).

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

Consequences of certain legal actions

There are a number of legal actions involving the Company, which have arisen from the regular course of its operations. The management makes estimates when the probable outcome of the legal action has been estimated, and the provisions are recognised on a consistent basis (see note 33).

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

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

The Company measures a financial liability initially and remeasures it subsequently at fair value, whereby any gain or loss arising from changes in the fair value will be reported in the income statement, which has been determined to eliminate or substantially eliminate any opposite effects.

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

The Company's original investment strategy contemplated to have assets designated through profit and loss to substantially eliminate mismatch via financial liabilities through profit and loss. The Company has subsequently changed its investment strategy based on the circumstances prevailing on the security market.

NOTE 5 – SEGMENT INFORMATION

Sales

	2009	2008
	(in thousands of HRK)	
Income from sale of goods and services		
- external	1,327,090	1,602,431
- group	493,281	446,505
	1,820,371	**2,048,936**
Income from service		
- external	15,407	19,389
- group	65,359	98,451
	80,766	**117,840**
	1,901,137	**2,166,776**

The Company has adopted IFRS 8 *„Operating Segments"* effective 1 January 2009. Operating segments are determined based on the relation between individual product groups. There are three segments recognized by the Company: Culinary, Food and Beverages and other. Business segments are an integral part of internal financial statements. Internal financial statements are being regurarly reviewed by Company's management and evaluates besed on them business performance and brings management decisions (Note 3.12)
The reporting segments have been redefined following the adoption of IFRS 8.
In a prior periods Company reported two operating segments: Food and Beverages and Services.

Segment revenues and results

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

	Segment revenue		**Segment profit**	
(in thousands of HRK)	**2009**	**2008**	**2009**	**2008**
Culinary	830,219	819,917	115,264	68,624
Food	666,191	880,881	22,142	21,023
Beverages and other	404,727	465,978	22,626	13,767
	1,901,137	**2,166,776**	**160,032**	**103,414**
Other revenue			51,049	110,365
Other (losses) / gains, net			(340,018)	27,745
Central administration costs			(102,060)	(133,268)
Restructuring and other expenses			(31,900)	(23,867)
Finance costs			(77,211)	(80,715)
(Loss) / profit before tax			**(340,108)**	**3,674**

NOTE 5 – SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

The Culinary segment comprises the following product groups: Food Seasoning, Cooking Aids, Condiments, Vegetable Products, Tomato Products.

The Food segment comprises the following product groups: Baby Food, Spreads, Snacks, Fruit Products, Bakery and Mill Products, Frozen Products, Rice, Cereals and Other Products, Eva – Tinned Fish, Meat Products.

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 Company'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, share of profits of associates, 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

	31/12/2009	31/12/2008
	(in thousands of HRK)	
Segment assets		
Culinary	1,056,676	1,158,253
Food	832,043	1,058,905
Beverages and other	459,513	615,498
Total segment assets	**2,348,232**	**2,832,656**
Unallocated	772,274	810,740
Total assets	**3,120,506**	**3,643,396**

	31/12/2009	31/12/2008
	(in thousands of HRK)	
Segment liabilities		
Culinary	718,154	772,042
Foods	558,564	696,720
Beverages and other	319,180	414,266
Total segment liabilities	**1,595,898**	**1,883,028**
Unallocated	272,089	170,876
Total liabilities	**1,867,987**	**2,053,904**

NOTE 5 – SEGMENT INFORMATION (continued)

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

All liabilities other than 'other liabilities' and 'provisions' (Notes 33 and 34) have been allocated by segments. Liabilities have been allocated to reporting segments in proportion to segment assets.

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
(in thousands of HRK)	**2009**	**2008**	**2009**	**2008**
Culinary	38,876	42,377	19,650	44,065
Food	28,393	27,280	13,532	53,415
Beverages and other	19,588	21,236	10,356	35,279
Total	**86,857**	**90,893**	**43,538**	**132,759**

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)	**31/12/2009**
Culinary	16,170
Beverages and other	23,100
Total brand impairment losses	**39,270**
Allowance to the distribution right (Food)	7,200
Total impairment losses and allowance on intangible assets	**46,470**

Geographical information

The Company operates in four principal geographical areas by which it reports sales, whereas all non-current assets relate to the Croatian market.

	Revenue from external customers	
	2009	**2008**
	(in thousands of HRK)	
Croatia	1,206,035	1,513,567
South-East Europe	403,484	362,621
Central and Eastern Europe	126,234	130,742
Western Europe and overseas countries	165,384	159,846
Total	**1,901,137**	**2,166,776**

Information about major customers

Revenue from external sales account for 71 % of the total revenue, whereas the remaining portion represents intra-group sales. Top 20 customers account for 59 % of the external sales.

NOTE 6 – INVESTMENT REVENUE

	2009	2008
	(in thousands of HRK)	
Dividends received	26,663	79,515
Interest on loans and receivables – Group entities	18,568	12,664
Interest on loans	5,136	7,848
Impairment allowance on interest on loans and receivables	(10,731)	-
Interest on term-deposits and trade debtors	8,546	7,471
Revenue from the sale and leaseback transaction	2,867	2,867
	51,049	**110,365**

Investment revenue analysed by asset category:

	2009	2008
	(in thousands of HRK)	
Equity investments in subsidiaries	26,663	79,515
Other financial assets	15,840	23,379
Trade and other receivables	8,546	7,471
	51,049	**110,365**

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	(7,200)	-
(Losses) / gains on remeasurement of liabilities at fair value through profit or loss	(16,907)	35,894
(Losses) / gains on disposal of non-current assets, net	(11,411)	1,229
Grant income (subsidies)	1,150	-
(Losses) / gains on value adjustment of investments, net	(5,996)	(8,324)
	(342,747)	**28,799**
Foreign exchange gain/(losses), net	2,729	(1,054)
	(340,018)	**27,745**

NOTE 8 – COST OF GOODS SOLD

	2009	2008
	(in thousands of HRK)	
Raw material and supplies	492,376	507,283
Cost of goods sold	422,608	661,990
Staff costs	187,345	200,789
Depreciation	64,791	67,328
Energy	43,609	39,062
Maintenance	15,387	15,042
Other costs (transport, rental, professional training, accrued expenses, etc.)	30,586	8,690
	1,256,702	**1,500,184**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2009	2008
	(in thousands of HRK)	
Staff costs	115,590	136,789
Services (maintenance, communal services, graphic services, and similar)	15,417	16,950
Depreciation	13,626	16,063
Rental costs	13,486	14,287
Bank charges	7,095	9,220
Taxes and contributions independent of operating results	5,789	8,288
Telecommunications	4,822	5,881
Provisions for accrued expenses	3,678	3,558
Consultancy services	3,653	4,390
Other materials and energy	2,415	3,066
Per diems and other business travel expenses	2,122	2,917
Entertainment	1,657	4,238
Other expenses (professional training and literature, Supervisory Board fees, and similar)	5,429	4,562
	194,779	**230,209**

NOTE 10 – SELLING AND DISTRIBUTION EXPENSES

	2009	2008
	(in thousands of HRK)	
Staff costs	130,384	144,775
Rental costs	33,955	38,934
Transportation	20,113	24,073
Net provisions for trade receivables	13,703	4,261
Other services (single service agreements, distribution services, professional services, student service)	12,921	17,345
Energy	12,824	18,208
Depreciation	8,072	7,013
Maintenance	7,265	8,811
Per diems and other business travel expenses	6,091	5,057
Telecommunications	2,984	3,854
Taxes and contributions independent of operating results	2,589	2,868
Professional literature, administrative fees and duties	2,241	2,590
Write-off and deficit of inventories	2,119	6,195
Insurance premium	1,482	1,841
Other expenses	10,872	12,059
	267,615	**297,884**

Other selling and distribution expenses relate to costs of professional literature, training, entertainment and other.

NOTE 11 – MARKETING EXPENSES

	2009	2008
	(in thousands of HRK)	
Retail trader and consumer marketing	50,017	60,520
Media investments	34,180	49,558
Institutional advertising and promotion	23,747	32,889
Staff costs	23,071	22,555
Market research	2,542	3,099
Services (maintenance, graphic services, engraving services, etc.)	5,533	6,746
Taxes and contributions independent of operating results	2,362	3,272
Other expenses	5,342	9,354
	146,794	**187,993**

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

NOTE 12 – OTHER EXPENSES

	2009	2008
	(in thousands of HRK)	
Interest expense on trade creditors	8,063	3,185
Write-off of intra-group loans	1,112	1,042
	9,175	**4,227**

NOTE 13 – EXPENSES BY NATURE

	2009	2008
	(in thousands of HRK)	
Raw material, supplies and energy	573,784	592,814
Staff costs	456,390	504,908
Cost of goods sold	402,494	640,803
Advertising and promotion	110,486	146,066
Depreciation	86,857	90,893
Services (maintenance, distribution, consultancy, freight forwarding, and similar service costs)	60,631	64,492
Rental costs	51,606	55,985
Transport	21,951	26,272
Taxes and contributions independent of operating results	17,335	24,249
Provisions for trade and other receivables	16,199	6,317
Per diems and other business travel expenses	10,051	10,982
Telecommunications	9,480	11,606
Bank charges	7,095	9,220
Packaging waste disposal fee	5,326	6,005
Entertainment	4,433	8,043
Other expenses (insurance premium, design services, professional training and literature, administrative duties, court costs)	31,772	17,615
	1,865,890	**2,216,270**

NOTE 14 – STAFF COSTS

	2009	2008
	(in thousands of HRK)	
Salaries	416,730	474,120
Termination benefits	19,363	13,865
Transportation	6,069	6,692
Provisions for annual vacations, termination benefits and jubilee awards	2,771	11,142
Share options	2,016	(11,521)
Other employee benefits	9,441	10,610
	456,390	**504,908**

As at 31 December 2009, the number of staff employed by the Company was 3,560 (2008: 4,044).

In 2009, the Company accrued and paid retirement incentives in the amount of HRK 31,548 thousand for 260 employees, of which HRK 29,713 thousand being non-taxable (2008: a provision of HRK 10,350 thousand) and HRK 1,835 thousand, which are included in the salaries (2008: HRK 17,562 thousand for 89 employees, of which HRK 13,865 thousand being non-taxable and HRK 3,697 taxable).

NOTE 15 – FINANCE COSTS

	2009	2008
	(in thousands of HRK)	
Interest expense on short-term borrowings	31,130	40,383
Interest expense on long-term borrowings	21,451	14,717
Interest expense on issued bonds	19,114	19,238
Interest expense on commercial papers	9,845	-
	81,540	**74,338**
Net foreign exchange (gains) / losses on borrowings	(4,329)	6,377
	77,211	**80,715**

During 2009 and 2008, the Company had no investments on which interest expense would be capitalised.

NOTE 16 – NET FOREIGN EXCHANGE GAINS/LOSSES

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

	2009	2008
	(in thousands of HRK)	
Finance revenue / (costs)	4,329	(6,377)
Other gains / (losses), net	2,729	(1,054)
	7,058	**(7,431)**

NOTE 17 – INCOME TAX

The tax on the Company's profit before tax differs from the notional amount that would arise using the tax rate of 20% (2008: 20%) applicable to the Company's profit as follows:

	2009	**2008** As restated
	(in thousands of HRK)	
(Loss) / Profit before taxation	(340,108)	3,674
Tax calculated at weighted average tax rates applicable to the Company's profits	-	735
Effect of permanent differences, net	(5,434)	(22,116)
Effect of tax benefits (research and development, education and other allowances)	(433)	(1,382)
Effect of tax losses (used)/ brought forward	(1,642)	13,748
Tax income recognised in the statement of comprehensive income	**(7,509)**	**(9,015)**

Deferred tax assets recognised in the statement of financial position	**2009**	**2008**
	(in thousands of HRK)	
Deferred tax assets	(16,524)	(9,015)

Unused tax losses:	**2009**	**2008**
	(in thousands of HRK)	
Unused tax losses	153,924	162,137

The availability of unused tax losses expires as follows:

2008	-	-
2009	-	-
2010	-	-
2011	58,121	66,334
2012	27,061	27,061
2013	68,742	68,742

In accordance with Croatian tax regulations, by the end of 2009, the Company realised tax losses in the amount of HRK 153,924 thousand (2008: HRK 162,137 thousand), which may be utilised up to 2013 at the latest. Unused tax losses have not been 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.

NOTE 17 – INCOME TAX (continued)

Deferred tax assets arise from the following:

2009	**Opening balance**	**Through statement of the comprehensive income**	**Closing balance**
		(in thousands of HRK)	
Temporary differences:			
Intangible assets – brands	-	7,854	7,854
Provisions for jubilee awards	2,336	(458)	1,878
Value adjustment of inventories	2,233	(351)	1,882
Financial assets at fair value through profit or loss	1,665	89	1,754
Vacation accrual	1,452	576	2,028
Provision for termination benefits	991	137	1,128
Provisions for other future charges	338	(338)	-
	9,015	**7,509**	**16,524**

2008	**Opening balance**	**Through statement of the comprehensive income**	**Closing balance**
		(in thousands of HRK)	
Provisions for jubilee awards	-	2,336	2,336
Value adjustment of inventories	-	2,233	2,233
Financial assets at fair value through profit or loss	-	1,665	1,665
Vacation accrual	-	1,452	1,452
Provision for termination benefits	-	991	991
Provisions for other future charges	-	338	338
	-	**9,015**	**9,015**

Unrecognised deferred tax assets

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

	2009	**2008**
	(in thousands of HRK)	
Tax losses	30,785	32,427
	30,785	**32,427**

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

NOTE 18 – EARNINGS PER SHARE

Basic (loss) / earnings per share

Basic (loss)/earnings per share are determined by dividing the Company'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 equity holders (in thousands of HRK)	(332,599)	12,689
Weighted average number of shares	5,243,961	5,322,219
Basic (loss) / earnings per share (in HRK)	**(63.43)**	**2.38**

Diluted (loss) / earnings per share

Diluted (loss) / earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 38,300 were not exercised (2008: 73,549 options):

	2009	2008
Net (loss) / profit attributable to equity holders (in thousands of HRK)	(332,599)	12,689
Adjustment for share options	38,300	73,549
Weighted average number of shares in issue for diluted earnings per share	5,282,261	5,395,768
Diluted (loss) / earnings per share (in HRK)	**(62.97)**	**2.35**

NOTE 19 – DIVIDENDS 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

	2009	2008	2007
	(in thousands of HRK)		
Land and buildings	653,668	699,150	673,300
Fittings and equipment	260,575	281,724	238,528
Assets under construction	86,384	85,375	167,956
	1,000,627	**1,066,249**	**1,079,784**

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT (continued)

(in thousands of HRK)	**Land and buildings**	**Equipment and fittings**	**Assets under construction**	**Total**
Cost				
At 1 January 2008	1,172,606	883,391	167,956	2,223,953
Additions	-	1,583	81,530	83,113
Transfers	64,457	89,253	(153,710)	-
Disposals	(473)	(36,437)	(10,401)	(47,311)
At 31 December 2008	**1,236,590**	**937,790**	**85,375**	**2,259,755**
Accumulated depreciation				
At 1 January 2008	(499,306)	(644,863)	-	(1,144,169)
Additions – reused assets	-	(1,163)	-	(1,163)
Charge for the year	(38,536)	(45,606)	-	(84,142)
Eliminated on disposal	402	35,566	-	35,968
At 31 December 2008	**(537,440)**	**(656,066)**	**-**	**(1,193,506)**
Carrying amount at 31 December 2008	**699,150**	**281,724**	**85,375**	**1,066,249**
Cost				
At 1 January 2009	1,236,590	937,790	85,375	2,259,755
Additions	-	5,121	28,615	33,736
Transfers	5,328	20,499	(25,827)	-
Disposals	(11,992)	(27,502)	(1,779)	(41,273)
At 31 December 2009	**1,229,926**	**935,908**	**86,384**	**2,252,218**
Accumulated depreciation				
At 1 January 2009	(537,440)	(656,066)	-	(1,193,506)
Additions – reused assets	-	(4,475)	-	(4,475)
Charge for the year	(38,919)	(41,467)	-	(80,386)
Eliminated on disposal	101	26,675	-	26,776
At 31 December 2009	**(576,258)**	**(675,333)**	**-**	**(1,251,591)**
Carrying amount at 31 December 2009	**653,668**	**260,575**	**86,384**	**1,000,627**

Land and buildings of Podravka d.d. worth HRK 450,862 thousand (2008: HRK 480,936 thousand) have been mortgaged agains the Company's borrowings.

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT (continued)

	2009	**2008**	**2007**
		(in thousands of HRK)	
Cost of capitalised finance leases	62,632	62,586	62,311
Accumulated depreciation	(11,372)	(6,897)	(2,256)
Net book value	**51,260**	**55,689**	**60,055**

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

The Company 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 3.3. above.

NOTE 21 – INTANGIBLE ASSETS

	2009	**2008**	**2007**
		(in thousands of HRK)	
Cost	313,764	307,258	324,230
Accumulated amortisation	(144,036)	(98,794)	(159,821)
	169,728	**208,464**	**164,409**

NOTE 21 – INTANGIBLE ASSETS (continued)

(in thousands of HRK)	**Software**	**Distribution rights**	**Brand**	**Investments in progress**	**Total**
Cost					
At 1 January 2008	100,993	67,694	102,070	53,473	324,230
Additions	-	-	-	50,806	50,806
Transfers	8,647	12,000	45,545	(66,192)	-
Disposals	(84)	(67,694)	-	-	(67,778)
At 31 December 2008	**109,556**	**12,000**	**147,615**	**38,087**	**307,258**
Accumulated amortisation					
At 1 January 2008	(92,127)	(67,694)	-	-	(159,821)
Charge for the year	(4,351)	(2,400)	-	-	(6,751)
Eliminated on disposal	84	67,694	-	-	67,778
At 31 December 2008	**(96,394)**	**(2,400)**	**-**	**-**	**(98,794)**
Carrying amount at 31 December 2008	**13,162**	**9,600**	**147,615**	**38,087**	**208,464**
Cost					
At 1 January 2009	109,556	12,000	147,615	38,087	307,258
Additions	-	-	-	14,358	14,358
Transfers	16,174	-	21,584	(37,758)	-
Disposals	(7,852)	-	-	-	(7,852)
At 31 December 2009	**117,878**	**12,000**	**169,199**	**14,687**	**313,764**
Accumulated amortisation					
At 1 January 2009	(96,394)	(2,400)	-	-	(98,794)
Charge for the year	(4,071)	(2,400)	-	-	(6,471)
Eliminated on disposal	7,699	-	-	-	7,699
Impairment losses recognized during the year	-	(7,200)	(39,270)	-	(46,470)
At 31 December 2009	**(92,766)**	**(12,000)**	**(39,270)**	**-**	**(144,036)**
Carrying amount at 31 December 2009	**25,112**	**-**	**129,929**	**14,687**	**169,728**

NOTE 21 – INTANGIBLE ASSETS (continued)

	2009	2008	2007
	(in thousands of HRK)		
Brand	129,929	147,615	102,070
Software	25,112	13,162	8,866
Assets under construction	14,687	38,087	53,473
Distribution rights	-	9,600	-
	169,728	**208,464**	**164,409**

At the end of the reporting period, the Company 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 using the discounted cash flow model.

In 2009, the impairment allowance on Franck distribution right amounts to HRK 7,200 thousand.

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

NOTE 22 – 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	Prodaja robe
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	47,425	47,425	Ice-cream
Sana d.o.o., Hoče	Slovenia	100.00	100.00	217	217	Wafers
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	1,925	1,925	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100.00	100.00	40	40	Sale and distribution
Podravka d.o.o., Podgorica	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
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-International s.r.o., Bratislava	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution
Podravka-International Inc. Wilmington	USA	100.00	100.00	3	3	Sale and distribution
Podravka International, Turkey	Turkey	75.00	-	15	-	Sale and distribution
				531,707	**531,692**	

NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)

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.

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

NOTE 23 – OTHER FINANCIAL ASSETS

	2009	2008	2007
		(in thousands of HRK)	
Loans to related companies	218,816	213,092	165,603
Loans to third parties	4,456	53,949	58,136
Impairment losses on loans to third parties	(2,500)	-	-
Deposits and other	3,271	2,992	2,812
	224,043	**270,033**	**226,551**

Loans given to related parties include noncurrent portion of the loan given to Belupo d.d. in the amount of HRK 215,377 thousand (2008: HRK 195,547 thousand), Danica d.o.o. in the amount of HRK 3,439 thousand (2008: HRK 17,196 thousand) and Podravka International Budapest (2008: HRK 349 thousand), Note 38.

During 2009, Company provided HRK 5,000 thousand for the long term loan granted to Sloga d.o.o., Koprivnica (long term portion in the amount of HRK 2,500 thousand and current portion of the long term loan in the amount of HRK 1,250 thousand and due uncollected receivables in the amount of HRK 1,250 thousand – Note 25).

NOTE 24 – INVENTORIES

	2009	2008	2007
		(in thousands of HRK)	
Raw materials and supplies	103,611	102,724	90,021
Work in progress	30,241	32,865	39,556
Finished goods	96,849	94,840	88,871
Trade goods	54,484	66,360	59,282
	285,185	**296,789**	**277,730**

In 2009, a reversal of impairment losses in the amount of HRK 1,754 thousand was credited (2008: HRK 1,177 thousand charged), which is included in the statement of comprehensive income in line item 'Cost of goods sold'

NOTE 25 – TRADE AND OTHER RECEIVABLES

	2009	2008	2007
	(in thousands of HRK)		
Current receivables			
Trade receivables	355,995	450,552	374,158
Less: Provisions for impairment	(60,516)	(52,783)	(55,712)
Net trade receivables	**295,479**	**397,769**	**318,446**
Intragroup trade receivables	327,186	294,101	236,820
Short-term deposit	45,298	-	108,910
Intragroup loans given	68,739	90,923	61,993
Loans given	61,487	18,542	625
Impairment allowance on loans given	(61,197)	-	-
Advances to suppliers	845	4,535	454
Bills of exchange received	22,411	2,987	31,523
Other receivables	32,541	57,795	119,480
	792,789	**866,652**	**878,251**

Loans given to related parties includes current portion of the long term loan granted to: Belupo d.d. in the amount of HRK 53,844 thousand (2008: 72,023 thousand), Danici d.o.o. in the amount of HRK 13,758 thousand (2008: HRK 13,757 thousand) Podravka Budapest in the amount of HRK 340 thousand (2008: HRK 1,396 thousand), Ital-Ice (2008: HRK 1,000 thousand) Podravka Beograd (2008:HRK 2,747 thousand) and short term loan granted to Podravka International Turkey in the amount of HRK 797 thousand (Note 38).
During 2009, Company made allowance for loans in the amount of HRK 61,197 thousand (Fima Grupa HRK 49,190 thousand, Gradec d.o.o., Križevci HRK 10,757 thousand, Sloga d.o.o., Koprivnica HRK 1,250 thousand).

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.b).

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

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

	2009	2008
	(in thousands of HRK)	
At 1 January	52,783	55,712
Increase	14,355	5,255
Amounts collected	(2,398)	(2,039)
Written off as uncollectible	(4,224)	(6,145)
At 31 December	**60,516**	**52,783**

In 2009, the expense of the provision for trade receivables, i.e. the income from the collection of trade receivables previously provided for is included in 'Selling and distribution costs'.

NOTE 25 – TRADE AND OTHER RECEIVABLES (continued)

Ageing analysis of trade receivables past due but not impaired

	2009	2008
	(in thousands of HRK)	
Up to 90 days	150,776	168,853
91-180 days	78,613	57,267
181-360 days	31,610	37,802
	260,999	**263,922**

Other receivables at 31 December were as follows:

	2009	2008	2007
		(in thousands of HRK)	
Net VAT receivable	5,238	13,609	24,702
Other loans and interests receivable from related companies	161	20,340	13,746
Profit distributions from related entities	17,297	7,970	73,944
Interest receivable on domestic loans	11,007	7,884	1,134
Impairment allowance on domestic loan interest receivable	(11,007)	(275)	(258)
Other financial 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 expenses	5,673	3,677	916
Receivables from employees	1,830	1,666	3,017
Other receivables – gross	3,379	3,961	3,494
Impairment allowance for other receivables	(1,037)	(1,037)	(1,215)
	32,541	**57,795**	**119,480**

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 provided to SMS d.o.o. Split during 2007;
- Impairment allowance on guarantees paid in the amount of HRK 30,556 thousand.

No impairment allowance for other assets was made in 2009 (2008: an impairment allowance for other receivables in the amount of HRK 17 thousand, presented within 'Selling and distribution expenses', i.e. the expense analysis by nature).

NOTE 26 – 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, shares were purchased in the investment fund ST Invest in the total amount of HRK 30,200 thousand, and in the investment fund FIMA Equity in the amount of HRK 3,500 thousand.

NOTE 27 – CASH AND CASH EQUIVALENTS

	2009	2008	2007
	(in thousands of HRK)		
Cash with banks	56,830	222,388	54,132
Short-term deposits – up to 3 months	20,701	148,639	-
Cash in hand	49	52	136
Cheques received	2	7	2
	77,582	**371,086**	**54,270**

NOTE 28 – SHARE CAPITAL

	2009	2008	2007
		(in thousands of HRK)	
Ordinary shares	1,626,001	1,626,001	1,626,001
Capital gains	24,585	22,569	41,815
Own shares	(67,604)	(61,214)	(39,349)
	1,582,982	**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)
Employee share options:					
- fair value of options	-	-	2,016	-	2,016
At 31 December 2009	**5,242,492**	**1,626,001**	**24,585**	**(67,604)**	**1,582,982**

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 37 to the financial statements.

NOTE 29 – RESERVES

	2009	2008	2007
	(in thousands of HRK)		
Legal reserves	6,849	6,358	6,177
Other reserves	-	-	15,855
Reserves for treasury shares	35,345	26,014	6,712
	42,194	**32,372**	**28,744**

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Reserves for treasury shares**	**Total**
At 1 January 2008	6,177	15,855	6,712	28,744
Transfer to reserves	181	(15,855)	19,302	3,628
At 31 December 2008	**6,358**	**-**	**26,014**	**32,372**
At 1 January 2009	6,358	-	26,014	32,372
Transfer to reserves	491	-	9,331	9,822
At 31 December 2009	**6,849**	**-**	**35,345**	**42,194**

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

According to the decision of the General Assembly of the Company from July 2009 the Company's profit for 2008 was appropriated as follows: HRK 491 thousand to legal reserves and HRK 9,331 thousand to the treasury share reserve.

According to the decision of the General Assembly of the Company in July 2008 the Company's profit for 2007 was allocated to: legal reserves in the amount of HRK 181 thousand; and to treasury share reserve in the amount of HRK 3,447 thousand. Other reserves in the amount of HRK 15,855 thousand were transferred to the treasury share reserve.

NOTE 30 – ACCUMULATED LOSSES

	2009	2008	2007
	(in thousands of HRK)		
Accumulated losses	(372,657)	(30,236)	(39,297)

	2009	2008
At 1 January	(30,236)	3,628
Effect of the correction of income from the sale and leaseback transaction	-	(42,925)
Restated opening balance	**(30,236)**	**(39,297)**
- Transfer to legal and other reserves	(9,822)	(3,628)
- Net profit / loss for the period prior to correction	(332,599)	9,822
- The effect of the correction of the income from the sale and leaseback transaction	-	2,867
At 31 December	**(372,657)**	**(30,236)**

NOTE 31 – 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 balance sheet dates were as follows:

	2009			2008		
	HRK	EUR	Other	HRK	EUR	Other
	%	%	%	%	%	%
Issued bonds	5.32	-	-	5.32	-	-

NOTE 32 – BORROWINGS

	2009	2008	2007
	(in thousands of HRK)		
Non-current borrowings			
Banks in Croatia	27,407	37,467	47,463
Banks in foreign countries	331,873	402,418	-
Finance lease	26,239	28,450	28,734
	385,519	**468,335**	**76,197**
Current borrowings			
Banks in Croatia	309,652	534,992	350,910
Banks in foreign countries	243,041	51,696	145,037
Finance lease	2,153	2,568	1,710
Reverse factoring	-	42,700	-
Other	1,940	1,511	759
	556,786	**633,467**	**498,416**
Total borrowings	**942,305**	**1,101,802**	**574,613**

Bank borrowings in the amount of HRK 554,343 thousand (2008: HRK 581,951 thousand) are secured by mortgages over the Company's land and buildings.

NOTE 32 – BORROWINGS (continued)

The finance lease liabilities are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2009	2008	2009	2008	2009	2008
			(in thousands of HRK)			
Up to 1 year	4,287	4,868	2,134	2,300	2,153	2.568
Between 1 and 5 years	17,057	14,758	8,635	7,711	8,422	7.047
After 5 years	23,179	29,876	5,362	8,473	17,817	21.403
Less: future finance charges	**(16.131)**	**(18,484)**	**(16,131)**	**(18,484)**	**28,392**	**31,018**
Present value of minimum lease payments	**28.392**	**31,018**			**28,392**	**31,018**
Included in the financial statements within:						
Current borrowings					2,153	2,568
Non-current borrowings					26,239	28,450
					28,392	**31,018**

The exposures of the Company’s borrowings to interest rate changes based on the contractual repricing dates at the balance sheet dates are as follows:

	2009	2008
	(in thousands of HRK)	
6 months or less	428,252	931,486
6 – 12 months	74,476	132,849
1 – 5 years	439,577	37,467
Over 5 years	-	-
	942,305	**1,101,802**

If the interest rate on borrowings at variable rates increases by 3.87 % on average, the liability in respect of interest would increase by HRK 2,916 thousand (2008: based on an average increase of 4.22 %, the liability would increase by HRK 4,483 thousand).

The maturity of non-current borrowings is as follows:

	2009	2008
	(in thousands of HRK)	
Between 1 and 2 years	96,761	79,830
Between 2 and 5 years	270,941	291,479
Over 5 years	17,817	97,026
	385,519	**468,335**

NOTE 32 – BORROWINGS (continued)

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

	2009		2008	
	HRK	EUR	HRK	EUR
	%	%	%	%
Non-current borrowings				
Banks in Croatia	-	5.00	-	5.00
Banks in foreign countries	-	3.99	-	7.34
Finance lease	-	6.33	-	8.18
Current borrowings				
Banks	6.88	-	7.95	7.51
Other	5.00	-	5.00	-

During 2009, no new long-term borrowings were raised, and the existing ones were repaid in accordance with the 2009 repayment schedule. Included in the current borrowings are commercial papers. Namely, on 10 February 2009, the first tranche of commercial papers in the amount of EUR 18 million was issued, 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 carrying amounts and fair values of the Company’s borrowings are as follows:

	Carrying amounts		Fair value	
	2009	2008	2009	2008
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Banks in Croatia	27,407	37,467	27,560	37,009
Foreign banks	331,873	402,418	331,873	402,418
Finance lease	26,239	28,450	26,239	28,450
	385,519	**468,335**	**385,672**	**467,877**

The fair value has been determined on the basis oft he discounted cash flows using the interest rate of 2.71 % (2008: 5.78 %).

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

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

	2009	2008
	(in thousands of HRK)	
HRK	148,191	569,211
EUR	794,114	532,591
	942,305	**1,101,802**

NOTE 32 – BORROWINGS (continued)

The Company has the following undrawn borrowing facilities:

	2009	2008
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	67,777	73,323
	67,777	**73,323**

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

NOTE 33 – PROVISIONS

	2009	2008	2007
	(in thousands of HRK)		
Non-current	19,263	18,302	18,033
Current	11,684	8,817	9,877
	30,947	**27,119**	**27,910**

(in thousands of HRK)	**Jubilee awards**	**Vacation accrual**	**Termination benefits**	**Legal actions**	**Total**
Analysis of total provisions as at 31 December 2008:					
Non-current	10,124	-	4,957	3,221	18,302
Current	1,557	7,260	-	-	8,817
	11,681	**7,260**	**4,957**	**3,221**	**27,119**
At 1 January 2009					
Charged/(credited) to statement of comprehensive income:					
Increase in provisions	(797)	9,119	707	4,446	13,475
Utilised during the year	(1,496)	(6,235)	(23)	(1,893)	(9,647)
At 31 December 2009	**9,388**	**10,144**	**5,641**	**5,774**	**30,947**
Analysis of total provisions as at 31 December 2009:					
Non-current	7,945	-	5,641	5,677	19,263
Current	1,443	10,144	-	97	11,684
	9,388	**10,144**	**5,641**	**5,774**	**30,947**

NOTE 33 – PROVISIONS (continued)

Employee benefits

This provision comprises estimated employee benefits relating to unused vacation days and jubilee awards, as defined by the collective bargaining agreement. The non-current provision in the amount of HRK 7,945 thousand (2008: HRK 10,124 thousand) relates to the estimated acquired rights to jubilee awards that will be paid after 2009.

The current amount of employee benefits includes HRK 10,144 thousand (2008: HRK 7,260 thousand) in respect of unused vacation days and HRK 1,443 thousand (2008: HRK 1,557 thousand) in respect of jubilee awards that will be paid in 2010.

Termination benefits

In 2009, a long-term provision of HRK 5,641 thousand for regular termination benefits was made (2008: HRK 4,957).

Legal proceedings

This provision relates to certain legal proceedings initiated against the Company. The provision expense is stated in the statement of comprehensive income under administration costs.

Based on the expert opinion of legal counsel, the Company's Management believes that the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2009.

NOTE 34 – TRADE AND OTHER PAYABLES

	2009	2008	2007
		(in thousands of HRK)	
Trade payables	272,363	366,347	367,255
Trade payables – intragroup transactions	44,930	96,129	74,196
Other liabilities	241,142	143,757	112,826
	558,435	**606,233**	**554,277**

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

Other payables include the following:

	2009	2008	2007
		(in thousands of HRK)	
Accrued expenses in respect of a guarantee given	102,610	-	-
Deferred lease income	37,190	40,058	42,925
Other accrued expenses	35,953	30,334	6,381
Salaries and other benefits to employees	34,965	43,521	37,073
Accrued interest not yet due on bonds and borrowings	16,543	24,050	16,740
Package waste disposal fee payable	6,924	(657)	5,533
Taxes, contributions and other duties payable	4,303	2,064	874
Dividends payable	1,773	1,780	2,087
Other	881	2,607	1,213
	241,142	**143,757**	**112,826**

In 2009, a provision of HRK 102,610 thousand was made for a guarantee given to Fima Grupa d.d., Varaždin for Erste faktoring d.o.o. Zagreb (Note 41).

NOTE 35 – DEFINED BENEFIT PLAN

Defined benefit plan

According to the Collective Agreement the Company has obligation to pay jubilee awards, retirement and other benefits to employees. The Company operates defined benefit schemes for qualifying employees. Under the schemes, the employees are entitled to a regular retirement benefit (without stimulating retirement benefit) in the net amount of HRK 10,000, of which HRK 2,000 are taxable. No other post-retirement benefits are provided. Jubilee awards are paid out according to the Collective Agreement, in the following net amounts and at the following anniversary dates:

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

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

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2009 by the actuaries of the firm Aktuarijat Sanjković d.o.o. In 2009, the Company made a provision of HRK 9,388 thousand for jubilee awards and HRK 5,641 thousand for regular retirement benefits.

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

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

	Estimate	
	2009	**2008**
Discount rate	6.2%	6.4%
Fluctuation rate	7.5%	5.39%
Average expected remaining working lives (in years)	22	22

NOTE 35 – DEFINED BENEFIT PLAN (continued)

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	694	812
Interest expense	837	952
Benefits paid	(1,519)	(1,564)
Other actuarial adjustments	-	(70)
Net actuarial losses for the year	(1,621)	256
	(1,609)	**386**

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

	2009	2008
	(in thousands of HRK)	
Present value of jubilee awards	9,388	11,681
Present value of termination benefits	5,641	4,957
Obligation reported in the balance sheet	**15,029**	**16,638**

Of which by maturity:

	2009	2008
	(in thousands of HRK)	
Short-term	1,443	1,557
Long-term	13,586	15,081
	15,029	**16,638**

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

	2009	2008
	(in thousands of HRK)	
At 1 January	16,638	16,252
Current service cost	694	812
Interest expense	837	952
Actuarial (losses)/gains	(1,621)	256
Benefits paid	(1,519)	(1,564)
Other actuarial adjustments	-	(70)
At 31 December	**15,029**	**16,638**

NOTE 36 – FINANCIAL INSTRUMENTS

36.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

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

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

	2009	2008
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	1,278,605	1,420,552
Cash and cash equivalents	(77,582)	(371,086)
Net debt	1,201,023	1,049,466
Equity	1,252,519	1,589,492
Net debt to equity ratio	95.89%	66.03%

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

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

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

36.2. Significant accounting policies

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

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.3. Categories of financial instruments

	2009	2008
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,072,003	1,504,784
Held-to-maturity bills	22,411	2,987
At fair value through profit or loss	22,321	23,416
Financial liabilities		
Financial lease liabilities	28,392	31,018
Borrowings	913,913	1,070,784
Trade and other payables	558,435	606,233
At fair value through profit or loss	336,300	318,750

36.4. Financial risk management objectives

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

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

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

36.5. Market risk

Commodity risk management (price risk)

Volatitliy in food material prices is a pervasive element of the Company's business environment.

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

Sales function based risk

The Company generates approximately 63.4 % of its revenue on the domestic market, whereas around 36.6 % of the sales are generated on international markets, mainly through related entities. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each oft he markets, which is at the same time the maximum sales function based risk.

NOTE 36 – FINANCIJSKI INSTRUMENTI (continued)

36.6. Foreign exchange risk management

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

	Liabilities		Assets	
	2009	**2008**	**2009**	**2008**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	852,543	618,704	312,870	325,741
USA (USD)	2,738	2,073	6,407	6,007
Other currencies	137	137	15,163	31,272

Foreign currency sensitivity analysis

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

The following table details the Company's sensitivity to a 1.77 % increase in Croatian kuna against the relevant foreign currencies (2008: a 1.00 % 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 only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the above specified percentage of change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR impact		USD impact	
	2009	**2008**	**2009**	**2008**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	-	4,177	-	43
Loss	10,622	-	136	-

	Impact of other currencies	
	2009	**2008**
	(in thousands of HRK)	
Profit	-	4,440
Loss	968	-

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

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.7. Interest rate risk management

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the interest expense of the Company as of 31 December 2009 would have changed by HRK 2,916 thousand (2008: HRK 4,483 thousand).

36.8. Other price risk

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

36.9. Credit risk management

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

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

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

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

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.9. Credit risk management (continued)

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

36.10. Liquidity risk management

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

Liquidity and interest rate tables

The following tables detail the Company's remaining contractual maturity for its financial liabilities from the balance sheet date.

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2009							
Non-interest bearing	-	423,866	86,715	25,215	11,469	42,117	589,382
Interest bearing	6.02	5,534	455,180	134,532	874,134	25,127	1,494,507
		429,400	541,895	159,747	885,603	67,244	2,083,889
2008							
Non-interest bearing	-	462,444	87,280	28,134	11,469	44,025	633,352
Interest bearing	7.28	214	287,885	402,609	820,580	108,735	1,620,023
		462,658	375,165	430,743	832,049	152,760	2,253,375

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 231,747 thousand for the year 2009 (2008: HRK 369,471 thousand for the year 2008) and amounts due to employees in the amount of HRK 34,965 thousand (2008: HRK 43,521 thousand).

The non-interest bearing liabilities of the Company due in a period of over five years include, among others, other long-term liabilities in the amount of HRK 19,263 thousand in 2009 (2008: HRK 18,302 thousand in 2008) and deferred income in the amount HRK 22,854 thousand in 2009 (2008: HRK 25,722 thousand).

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

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

36.10. Liquidity risk management (continued)

The tables below detail the remaining contractual maturities of the Company's assets presented in the statement of 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)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2009							
Non-interest bearing	-	439,335	190,584	48,544	-	-	678,463
Interest bearing	5.65	84,945	67,521	58,024	279,146	4,506	494,142
		524,280	258,105	106,568	279,146	4,506	1,172,605
2008							
Non-interest bearing	-	507,041	203,364	46,834	-	-	757,239
Interest bearing	4.29	232,824	179,843	92,999	292,631	4,471	802,768
		739,865	383,207	139,833	292,631	4,471	1,560,007

36.11. Fair value of financial instruments

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

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

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged bertween willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of a financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

At 31 December 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 37 – SHARE-BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares are granted to members of Management and certain executive directors in accordance with the applicable Contracts effective for the period from 2000 to 2006, and those applicable in 2007 and 2008. The exercise price of the granted option equals the average share price of the Company's shares per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the beginning of the business year. Options are acquired separately for each business year.

The exercise period for the options granted until 2007 can be exercised after two to five years following the year in which they were acquired.
Those acquired in 2007 can be exercised within six months after two years a 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.

All the terms and conditions apply, unless circumstances arise as provided in each of the contracs 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 exerciseable within six months from the occurrence of any of the circumstances described above

The Company has no legal or contractual obligation to redeem or settle the options in cash.

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

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

2009 Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 5 - issued 31/12/2004	10,000	2004	2009	198.04	239.00
Series 6 - issued 31/12/2005	8,750	2005	2010	296.69	318.00
Series 7 - issued 31/12/2007	27,800	2007	2010	535.25	510.00
Series 8 - isused 31/12/2008	26,999	2008	2011	361.14	261.00

During 2009 there was no new options granted

Inputs into the model

	Series 5	Series 6	Series 7	Series 8
Grant date share price	239.00	318.00	510.00	261.00
Exercise price	198.04	296.69	535.25	361.14
Expected volatitlity (%)	29.84%	23.33%	21.11%	25.49%
Option life	5.0	5.0	2.5	3.0
Risk-free interest rate	5.500%	6.875%	6.813%	6.833%

NOTE 37 – SHARE-BASED PAYMENTS (continued)

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	73,549	397.11	92,089	329.30
Granted during the year	-	-	26,999	361.14
Unused/transferred	(35,249)	471.92	(22,586)	309.29
Exercised during the year	-	-	(22,953)	169.16
Balance at end of year	**38,300**	**328.26**	**73,549**	**397.11**

During 2009 there were no exercised options.

Balance at the end of 2009, by series:

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 5 – issued 31/12/2004	10,000	2004	2009	198.04	239.00
Series 6 – issued 31/12/2005	4,500	2005	2010	296.69	318.00
Series 7 – issued 31/12/2007	3,800	2007	2010	535.25	510.00
Series 8 – issued 31/12/2008	20,000	2008	2011	361.14	261.00
Balance at end of 2009	**38,300**				

As at 31 December 2009, 38,300 options became vested (2008: 73,549 options). In 2009, 14,500 exercisable options were not exercises (2008: 18,750 options). There were no exercised options in 2009 (2008: 22,953 option). Exercised price of unexercised options as at the end of 2009 was equal to exercised price of unexercised prices in options as at yearend 2008.
Weighted average remaining contracted period at the end of the year was 460 days (2008: 814 days).

NOTE 38 – RELATED PARTY TRANSACTIONS

Related party transactions include operating business transactions with Podravka Group companies. Items resulting from these transactions and balances as at 31 December 2009 and 31 December 2008 are as follows:

REVENUE

	2009	2008
	(in thousands of HRK)	
Sales - products and trade goods	493,281	446,505
Service sales	65,359	98,451
	558,640	**544,956**

	Sales - products and trade goods		Service sales	
	2009	2008	2009	2008
	(in thousands of HRK)		*(in thousands of HRK)*	
Group company:				
Belupo d.d., Koprivnica	440	912	21,225	30,880
Danica d.o.o., Koprivnica	10,408	12,168	20,456	51,258
Ital-Ice d.o.o., Poreč	264	225	1,336	1,469
Podravka d.o.o., Ljubljana	90,778	74,627	2,264	388
Podravka d.o.o., Beograd	54,750	54,008	1,457	2,507
Podravka d.o.o.e.l., Skopje	36,859	30,768	172	366
Podravka d.o.o., Sarajevo	156,955	139,341	4,465	2,807
Podravka-Int.Deutschland-"Konar" GmbH	44,617	41,292	1,747	1,394
Podravka-International kft, Budapest	14,720	14,225	574	606
Podravka-International Pty Ltd, Sydney	21,622	20,661	1,001	1,128
Podravka-International s r.o., Bratislava	13,039	14,996	23	233
Podravka International, Turkey	1,033	-	-	-
Podravka-Polska Sp.z o.o., Kostrzyn	7,156	5,870	7,006	4,037
Podravka d.o.o., Podgorica	28,732	26,596	3,018	659
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	11,896	10,768	363	623
Other companies	12	48	252	96
Total related party sales	**493,281**	**446,505**	**65,359**	**98,451**

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

Investment revenue

	2009	2008
	(in thousands of HRK)	
Interest income	18,569	12,664
Profits of subsidiaries	26,663	79,515
	45,232	**92,179**

EXPENSES

Remuneration to the Management Board members and executives

	2009	2008
	(in thousands of HRK)	
Salaries	20,381	29,961
Share options through income statement	2,016	(11,521)
	22,397	**18,440**

LOAN RECEIVABLES

Loan receivables – long-term:

	2009	2008
	(in thousands of HRK)	
At beginning of year	304,015	227,596
Increase during the year	269,221	145,000
Repayments received	(67,714)	(65,339)
Other movements	(218,689)	(3,114)
Foreign exchange difference	(75)	(128)
At end of year	286,758	304,015
Maturity: one year or less	(67,942)	(90,923)
	218,816	**213,092**

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

Loan receivables – current:

	2009	2008
	(in thousands of HRK)	
At beginning of year	-	-
Increase during the year	2,408	979
Repayments received	(500)	-
Other changes – write-offs	(1,115)	(1,031)
Foreign exchange difference	4	52
At end of year	797	-
Maturity: one year or less	67,942	90,923
	68,739	**90,923**
Total loan receivables	**287,555**	**304,015**

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

	Interest rate	2009	2008
		(in thousands of HRK)	
Belupo d.d., Koprivnica	7% p.a.	269,221	267,571
Danica d.o.o., Koprivnica	7% p.a.	17,197	30,953
Ital-Ice d.o.o., Poreč	7% p.a.	-	1,000
Podravka d.o.o., Belgrade	1 M EURIBOR + 2.5%	-	2,746
Podravka-International kft, Budapest	7% p.a.	340	1,745
Podravka International, Turkey	7% p.a.	797	-
		287,555	**304,015**

The effective interest rate is 6.99 % p.a.

The maturity of long-term borrowings is as follows:

	2009	2008
	(in thousands of HRK)	
Between 1 and 2 years	57,284	86,161
Between 2 and 5 years	161,532	126,931
	218,816	**213,092**

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

BORROWINGS

	Effective interest rate			
	2009	2008	2009	2008
			(in thousands of HRK)	
KOTI Nekretnine d.o.o., Koprivnica	5%	5%	1,071	632
Poni trgovina d.o.o., Koprivnica	5%	5%	869	431
			1,940	**1,063**

TRADE RECEIVABLES AND PAYABLES

	Short-term trade receivables		Short-term trade payables	
	2009	2008	2009	2008
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Belupo d.d., Koprivnica	37,809	46,672	444	435
Danica d.o.o., Koprivnica	31,998	36,221	25,368	64,793
Lero d.o.o., Rijeka	25,750	24,203	9,502	14,580
Podravka Inženjering d.o.o., Koprivnica	88	39	2,066	438
Ital-Ice d.o.o., Poreč	183	313	6,646	15,013
Podravka d.o.o., Ljubljana	31,450	29,463	5	9
Podravka d.o.o., Beograd	47,779	31,512	155	8
Podravka d.o.o.e.l., Skopje	17,177	15,181	429	68
Podravka d.o.o., Sarajevo	74,675	61,104	-	-
Podravka-Int.Deutschland-„Konar“ GmbH	18,573	13,932	2	-
Podravka-International kft, Budapest	9,510	7,316	-	-
Podravka-International Pty Ltd, Sydney	5,171	4,669	-	-
Podravka-International s r.o., Bratislava	5,113	5,879	-	-
Podravka International, Turkey	458	-	-	
Podravka-Polska Sp.z o.o., Kostrzyn	5,132	2,708	290	315
Podravka d.o.o., Podgorica	12,499	10,051	-	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	3,809	4,838	23	470
Podravka-International Inc. Wilmington	12	-	-	-
Total trade receivables and payables – Group entities	**327,186**	**294,101**	**44,930**	**96,129**

NOTE 38 – RELATED PARTY TRANSACTIONS (continued)

OTHER RECEIVABLES

Receivables from related parties in respect of profit distributions

	2009	2008
	(in thousands of HRK)	
Belupo d.d., Koprivnica	17,297	504
Podravka-Polska Sp.z o.o., Kostrzyn	-	7,465
	17,297	**7,969**

Other receivables from Group entities

	2009	2008
	(in thousands of HRK)	
Belupo d.d., Koprivnica	22	20,052
Danica d.o.o., Koprivnica	125	219
Ital-Ice d.o.o., Poreč	-	7
Podravka d.o.o., Belgrade	-	20
Podravka-International kft, Budapest	15	42
	162	**20,340**

GUARANTEES AND WARRANTIES

Guarantees and warranties to related companies

	2009	2008
	(in thousands of HRK)	
Belupo d.d., Koprivnica	132,420	173,633
Danica d.o.o., Koprivnica	86,246	85,335
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	51,323	63,994
Podravka-Polska Sp.z o.o., Kostrzyn	33,332	33,244
Podravka-International s r.o., Bratislava	6,210	10,698
Ital-Ice d.o.o., Poreč	-	2,564
Podravka d.o.o., Belgrade	991	1,830
Podravka d.o.o., Ljubljana	1,242	1,245
Podravka-International S.R.L., Bucuresti	476	477
	312,240	**373,020**

NOTE 39 – CONTINGENT LIABILITIES

	2009	2008
	(in thousands of HRK)	
Legal proceedings	4,516	1,884
Guarantees – external	12,914	12,874
Guarantees – Group entities	312,240	373,020
	329,670	**387,778**

With respect to other legal proceedings and guarantees given, no contingent liabilities were recognised in the statement of financial position as of 31 December 2009 and 2008, as Management estimated that as at 31 December 2009 and 2008 no contingent liability would arise for the Company.

NOTE 40 – COMMITMENTS

In 2009, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 1,250 thousand (2008: HRK 7,589 thousand), which are not yet realised or recognised in the statement of financial position.

The future payments receivable 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	29,848	29,531
Later than 1 year and not later than 5 years	37,857	54,198
Thereafter	2,550	-
	70,255	**83,729**

NOTE 41 – 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 350,000 thousand, 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 in an amount of HRK 97,080 thousand 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 42 – APPROVAL OF THE FINANCIAL STATEMENTS

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

Miroslav Vitković

President of the Board