PODRAVKA d.d. and Its Subsidiaries,
Koprivnica

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

RESPONSIBLITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

Miroslav Vitković

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 30 March 2010

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

We have audited the accompanying consolidated financial statements of Podravka d.d., Koprivnica ('the Company') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 2009, and the related consolidated statement of comprehensive income, consolidated statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Except as stated in the paragraph of matters that affect auditor's opinion, we conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Matters affecting the opinion

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

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

Qualified opinion

In our opinion, except for the effect of the matters discussed in the preceding two paragraphs, if any, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Zagreb, 30 March 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2009

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

in thousands of HRK	**Notes**	**Share capital**	**Reserves**	**Retained earnings/ (Accumulated loss)**	**Total**	**Non-controlling interest**	**Total**
Balance at 31 December 2007- before restatement	30, 31,32,33	**1,628,467**	**138,641**	**177,864**	**1,944,972**	**-**	**1,944,972**
Effect of correction relating to property sale and leaseback transaction	3.3 a)	-	-	(42,925)	(42,925)	-	(42,925)
Balance at 1 January 2008 – as restated		**1,628,467**	**138,641**	**134,939**	**1,902,047**	**-**	**1,902,047**
Net profit for the year		-	-	47,606	47,606	(143)	47,463
Other comprehensive expenses		-	(19,208)	-	(19,208)	-	(19,208)
Total comprehensive income		-	(19,208)	47,606	28,398	(143)	28,255
Acquisition of subsidiaries		-	-	-	-	34,170	34,170
Exchange differences		-	-	-	-	86	86
Purchase of treasury shares		(33,738)	-	-	(33,738)	-	(33,738)
Sale of treasury shares		266	-	-	266	-	266
Options exercised		3,882	-	-	3,882	-	3,882
Fair value of share options		(11,521)	-	-	(11,521)	-	(11,521)
Transfer to other and legal reserves		-	7,838	(7,838)	-	-	-
Coverage of loss		-	(43,813)	43,813	-	-	-
Balance at 31 December 2008 – as restated	30, 31,32,33	**1,587,356**	**83,458**	**218,520**	**1,889,334**	**34,113**	**1,923,447**
Loss for the year		-	-	(288,059)	(288,059)	184	(287,875)
Other comprehensive income		-	57	-	57	-	57
Total comprehensive loss		-	57	(288,059)	(288,002)	184	(287,818)
Exchange differences		-	-	-	-	64	64
Purchase of treasury shares		(6,390)	-	-	(6,390)	-	(6,390)
Fair value of share options		2,725	-	-	2,725	-	2,725
Transfer to other and legal reserves		-	26,310	(26,310)	-	-	-
Balance at 31 December 2009	30, 31,32,33	**1,583,691**	**109,825**	**(95,849)**	**1,597,667**	**34,361**	**1,632,028**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

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

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

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

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

NOTE 1 – GENERAL INFORMATION

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

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

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

Corporate governance and management

General Assembly

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

President	Branko Vuljak

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

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 *(from 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 *(from 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 decision to appoint Mr. Miljenko Javorović and Mr. Ljubo Jurčić members of the Supervisory Board of Podravka d.d.;
- In the Supervisory Board Meeting held on 18 November 2009, the Supervisory Board decided to elect Mr. Ljubo Jurčić President of the Supervisory Board of Podravka d.d.;
- On 21 December 2009, Mr. Damir Kovačić resigned from his mandate as Member of the Supervisory Board of Podravka d.d.

Supervisory Board members in 2008:

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

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

Management Board in 2008:

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

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

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'*. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they are required to present a restated statement of the financial position as at the beginning comparative period in addition to the current requirement to present statement of the financial position at the end of the current period and comparative period. The Group applied the option to present the statement of comprehensive income as a single performance statement.

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

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

IFRS 8 *Operating Segments* - IFRS 8 replaces IAS 14 'Segment Reporting' and aligns segment reporting with the requirements of the US standard SFAS 131 'Disclosures About Segments of an Enterprise and Related Information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The Standard is effective for the periods commencing after 1 January 2009, and the effects of the changed Standard are presented in Note 5 to the financial statements.

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

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

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'*. The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The application of the amended Standard did not have any impact on the Group's financial statements.

IAS 36 (Amendment) *'Impairment of assets'* (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group has applied the IAS 36 (Amendment) and provided the required disclosure in Note 21 and 22 to the financial statements.

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

The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight-line method. The amendment will not have an impact on the Group's operations, as intangible assets are amortised using the straight-line method.

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

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

The adoption of the amended IAS 19 did not have any impact on the Group's financial statements.

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

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 Group's financial statements.

IAS 16 (Amendment) *'Property, Plant and Equipment'* (and consequential amendment to IAS 7, *'Statement of Cash Flows'*) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to IAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment have no impact on the Group's operations because none of the Group's companies ordinary activities comprise renting and subsequently selling assets.

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

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

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

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

2.2. Standards and Interpretations early adopted by the Group

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

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

IAS 28 (Amendment) *'Investments in Associates'* (and consequential amendments to IAS 32 *'Financial Instruments: Presentation'* and IFRS 7 *'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 amendment had no impact on the Group's financial statements, as there are no investments in associates within the Group.

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

IAS 31 (Amendment) *'Interests in joint ventures'* (and consequential amendments to IAS 32 and IFRS 7) (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure 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'*.

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)

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

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

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

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

There are a number of minor amendments to *IFRS 7 'Financial instruments: Disclosures'*, *IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'*, *IAS 10 'Events After the Reporting 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 will not materially affect the Group's accounts and have therefore not been analysed in detail.

2.4. Standards and Interpretations in issue but not yet adopted

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

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

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

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

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

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

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

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

Amendments to IAS 17 *Leases.* As part of *Improvements to IFRSs 2009* issued in April 2009, the International Accounting Standards Board (IASB) amended the requirements of IAS 17 *Leases* regarding the classification of leases of land. Prior to amendment, IAS 17 *Leases* generally required leases of land with an indefinite useful life to be classified as operating leases. This was inconsistent with the general principles of the Standard, and the relevant guidance has been removed due to concerns that it could lead to accounting that did not reflect the substance of arrangements. Following the amendments, leases of land are classified as either 'finance' or 'operating' using the general principles of IAS 17. These amendments are effective for annual periods beginning on or after 1 January 2010, and they are to be applied retrospectively.

IFRS 1 (revised) *'First-time Adoption of IFRS'* (effective for annual periods beginning on or after 1 July 2009).

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

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

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

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

IFRS 9 *'Financial Instruments'* (effective for annual periods beginning on or after 1 January 2013).

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

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

Amendments to various standards and interpretations resulting from the Annual quality improvement project of IFRS published on 16 April 2009 (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9, IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording, (most amendments are to be applied for annual periods beginning on or after 1 January 2010).

Amendments to IFRIC 14 *'IAS 19 — The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction'* - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011).

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

IFRIC 16 *'Hedges of a Net Investment in a Foreign Operation'*. The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.

IFRIC 17 *'Distributions of Non-cash Assets to Owners'* (effective from 1 July 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 18 *'Transfers of Assets from Customers'* (effective from 1 July 2009). The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with *IAS 18 Revenue*.

IFRIC 19 *'Extinguishing Liabilities with Equity Instruments'* (effective for annual periods beginning on or after 1 July 2010).

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

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

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

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

The Group prepared these consolidated financial statements in accordance with Croatian regulations and IFRSs, and authorised them for issue on 30 March 2010.

3.3. MATTERS AFFECTING PRIOR YEARS

3.3. a) Restatement of prior periods

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (CONTINUED)

3.3. a) Restatement of prior periods (continued)

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

The overall effect of the restatement to the financial statements for year 2007 is as follows:

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (CONTINUED)

3.3. b) Option agreements

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

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

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

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

3.3. c) Formal investigation

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Basis of consolidation

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

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

3.5. Goodwill

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Non-current assets held for sale

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

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

3.7. Revenue recognition

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

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

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

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

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

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

(b) Sales of products and goods – retail

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Revenue recognition (continued)

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

(f) Government subsidies

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

3.8. Leases

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Foreign currencies

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

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

3.10. Borrowing costs

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 40.

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

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

3.12. Dividends

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

3.13. Segment reporting

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Taxation (continued)

Current and deferred tax for the period

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

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

Value added tax

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

3.15. Property, plant and equipment

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

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

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

	2009	2008
Buildings	10 to 50 years	10 to 50 years
Equipment	3 to 18 years	3 to 18 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.17).

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16. Intangible assets

Licences, brands and distribution rights

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

Rights to acquired trademarks and know-how are carried at historical cost and have an indefinite useful life, since based on an analysis of all of the relevant factors, there is no foreseeable limit to the period of time over which the asset is expected to generate net cash inflows. The stated right are tested annually for impairment and are stated at cost less accumulated impairment losses (Note 3.17).

Computer software

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

Internally-generated intangible assets - research and development expenditure

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

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

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

The amount initially recognised for internally-generated intangible assets is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Impairment of tangible and intangible assets (continued)

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

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

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

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

3.18. Inventories

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

The cost of work-in-process and finished goods comprise raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity).
Trade goods are carried at selling price less applicable taxes and margins.
Small inventory and tools are expensed when put into use.

3.19. Trade receivables

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

3.20. Cash and cash equivalents

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Share capital

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

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

3.22. Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

(c) Regular retirement benefits

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

(d) Long-term employee benefits

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Employee benefits (continued)

(e) Short-term employee benefits

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

(f) Share-based compensation

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

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

3.23. Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24. Financial assets

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

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

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24. Financial assets (continued)

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

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets (AFS)

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24. Financial assets (continued)

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

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

Loans and receivables

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

Impairment of financial assets

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.24. Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

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

Derecognition of financial assets

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25. Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial guarantee contract liabilities

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

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

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Other financial liabilities

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

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

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

Derecognition of financial liabilities

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

3.26. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During 2009, the directors determined that the useful life of certain items of exceeded the original estimates, resulting in a decreased depreciation charge by HRK 161 thousand. No changes to the useful lives of property, plant and equipment have been made during 2008.

Impairment of non-current assets, including goodwill

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. Based on the calculation of the net present value of future cash flows in 2009, intangible assets were impaired as follows: brands by HRK 39,270 thousand; distribution rights by HRK 7,200 thousand; pharmaceutical rights by HRK 1,525 thousand, and goodwill by HRK 5,758 thousand.
In 2008, no impairment resulted from the calculation of the future cash flows.
The carrying amount of goodwill is HRK 42,877 thousand (2008: HRK 48,428 thousand) (see Note 21).

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

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy.
In 2008 Group Management recognized deferred tax assets for temporary tax differences for the first time in the consolidated financial statements of the Group. Restatement of prior periods was not conducted due to the immaterial effect of the previous period. In 2009 Group recognized deferred tax assets at the available tax differences. The carrying amount of deferred tax assets was HRK 53,589 thousand (2008: HRK 44,552 thousand) (see Note 17).

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

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. At 31 December 2009, provisions for jubilee benefits and retirement bonuses amounted to HRK 14,370 thousand and HRK 9,761 thousand, respectively (2008: the total benefits amounted to HRK 24,603 thousand) (see notes 36 and 38).

Consequences of certain legal actions

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

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION

Sales revenue

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

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

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

Segment revenues and results

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

The Culinary segment comprises the following product groups: Food Seasoning, Podravka Meals, Condiments, Vegetable Products, and Tomato Products.
The Meat and Fish Products segment comprises the following product groups: Meat products and Eva fish products.
The Food segment comprises the following product groups: Baby Food, Spreads, Sweet Products, Snacks, Cereals, Fruit Products, Bakery and Mill Products, Frozen Products, Rice, Grains and Other Products.
The Pharmaceuticals segment comprises the following: Ethical drugs, No Prescription Program.
The 'Beverages and Other' segment comprises the following product groups: Non-alcoholic beverages, Merchandise, and Services.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

Podravka Group

Other segment information

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

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

Podravka Group

Geographical information

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

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

Information about major customers

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

NOTE 6 – INVESTMENT REVENUE

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

Investment revenue analysed by asset category:

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

NOTE 7 – OTHER (LOSSES) / GAINS, NET

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

NOTE 8 – COST OF GOODS SOLD

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

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

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

NOTE 10 – SELLING AND DISTRIBUTION COSTS

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

NOTE 11 – MARKETING EXPENSES

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

NOTE 12 – OTHER EXPENSES

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

NOTE 13 – EXPENSES BY NATURE

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

NOTE 14 – STAFF COSTS

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

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

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

NOTE 15 – FINANCE COSTS

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

NOTE 16 – NET FOREIGN EXCHANGE GAINS/(LOSSES)

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

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

NOTE 17 – INCOME TAX

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 19.5 % (2008: 19.5 %) applicable to the Group's result as follows:

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

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

The availability of unused tax losses expires as follows:

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

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

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

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

NOTE 17 – INCOME TAX (continued)

Deferred tax assets arise from the following:

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

Deferred tax liabilities arise from the following:

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

NOTE 17 – INCOME TAX (continued)

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

Deferred tax liabilities arise from the following:

2008	Opening balance	Charged through statement of comprehensive income	Exchange differences	Closing balance
Temporary difference:				
Adjustments to non-current assets	(642)	355	-	(287)
Adjustment of the fair value and carrying amount of the Farmavita assets	-	489	(8,558)	(8,069)
	(642)	**844**	**(8,558)**	**(8,356)**

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

NOTE 18 – (LOSS)/EARNINGS PER SHARE

Basic (loss)/earnings per share

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

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

Diluted (loss)/earnings per share

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

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

NOTE 19 – DIVIDEND PER SHARE

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

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

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
Cost				
At 1 January 2008	1,930,019	1,582,306	182,780	3,695,105
Effect of changes in the foreign exchange rate	(9,039)	(7,485)	(25)	(16,549)
Additions	212	4,321	106,883	111,416
Acquisition of subsidiaries	119,460	34,284	5,283	159,027
Transfers	70,370	109,954	(180,324)	-
Disposals	(991)	(53,696)	(11,807)	(66,494)
At 31 December 2008	**2,110,031**	**1,669,684**	**102,790**	**3,882,505**
Accumulated depreciation				
At 1 January 2008	854,361	1,170,428	995	2,025,784
Effect of changes in the foreign exchange rate	(2,322)	(6,573)	-	(8,895)
Additions	-	577	-	577
Acquisition of subsidiaries	927	4,752	-	5,679
Disposals	(1,091)	(51,776)	(995)	(53,862)
Charge for the year	64,675	77,689	-	142,364
At 31 December 2008	**916,550**	**1,195,097**	**-**	**2,111,647**
Carrying amount at 31 December 2008	**1,193,481**	**474,587**	**102,790**	**1,770,858**
Cost				
At 1 January 2009	2,110,031	1,669,684	102,790	3,882,505
Effect of changes in the foreign exchange rate	283	189	(415)	57
Additions	1,126	12,941	99,593	113,660
Transfers	31,305	46,477	(77,782)	-
Disposals and retirements	(13,031)	(46,524)	(11,497)	(71,052)
At 31 December 2009	**2,129,714**	**1,682,767**	**112,689**	**3,925,170**
Accumulated depreciation				
At 1 January 2009	916,550	1,195,097	-	2,111,647
Effect of changes in the foreign exchange rate	158	243	-	401
Additions	-	7,998	-	7,998
Disposals	(136)	(42,561)	-	(42,697)
Charge for the year	64,608	71,567	-	136,175
At 31 December 2009	**981,180**	**1,232,344**	**-**	**2,213,524**
Carrying amount at 31 December 2009	**1,148,534**	**450,423**	**112,689**	**1,711,646**

NOTE 20 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

Restatement:

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

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

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

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

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

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

NOTE 21 - GOODWILL

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

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

NOTE 22 – INTANGIBLE ASSETS

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

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

NOTE 22 – INTANGIBLE ASSETS (continued)

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

NOTE 22 – INTANGIBLE ASSETS (continued)

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

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

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

NOTE 23 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country of incorporation	Ownership interest in %		Equity share in thousands of HRK		Principal activity
		2009	**2008**	**2009**	**2008**	
Belupo d.d., Koprivnica	Croatia	100.00	100.00	157,830	157,830	Production and distribution of pharmaceuticals
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	3,328	3,328	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Purchase and sale of goods; meal preparation and
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	102,216	102,216	Meet processing and production
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Services
Lero d.o.o., Rijeka	Croatia	100.00	100.00	89,993	89,993	Fruit and vegetable juice and beverage production
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	20	20	Trade
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	47,425	47,425	Ice cream manufacture
Sana d.o.o., Hoče	Slovenia	100.00	100.00	217	217	Wafers
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	1,925	1,925	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	42	42	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia &	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 Rep.	100.00	100.00	68,754	68,754	Rice production and sale
Podravka-International s.r.o., Bratislava	Slovakia	75.00	75.00	1,034	1,034	Sale and distribution
Podravka-International Inc. Wilmington	SAD	100.00	100.00	3	3	Sale and distribution
Podravka International, Turska	Turkey	75.00	-	15	-	Sale and distribution
				531,707	**531,692**	

NOTE 23 – 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 and an equity share in Farmavita d.o.o., Sarajevo, in the amount of HRK 71,944 thousand.

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

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

NOTE 24 – OTHER FINANCIAL ASSETS

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

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

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

NOTE 25 – INVENTORIES

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

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

NOTE 26 – TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

Ageing analysis of trade receivables past due but not impaired

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

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

Other receivables at 31 December were as follows:

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

Impairment allowances made during 2009 comprise the following:

- Impairment allowance on other financial receivables under cancelled loans and forced collection in the amount of HRK 65,000 thousand in respect of a long-term loan approved to SMS d.o.o., Split, in 2007 ;
- Impairment allowance on guarantees paid in the amount of HRK 30,556 thousand.

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

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

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

Movements during the year are as follows:

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

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

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

NOTE 28 – CASH AND CASH EQUIVALENTS

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

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

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

NOTE 30 – SHARE CAPITAL

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

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

As at 31 December 2009, the Company's share capital amounted to HRK 1,626,001 thousand, distributed among 5,420,003 shares (2008: HRK 1,626,001 thousand and 5,420,003 shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid in.

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

NOTE 31 – RESERVES

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

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Translation reserve**	**Reserves for treasury shares**	**Total**
At 1 January 2008	44,717	70,306	16,906	6,712	138,641
Transfer to reserves /ii/	423	(11,887)	-	19,302	7,838
Coverage of loss	(624)	(43,189)	-	-	(43,813)
Exchange differences	-	-	(19,208)	-	(19,208)
At 31 December 2008	**44,516**	**15,230**	**(2,302)**	**26,014**	**83,458**
At 1 January 2009	44,516	15,230	(2,302)	26,014	83,458
Transfer to reserves /ii/	652	16,327		9,331	26,310
Exchange differences	-	-	57	-	57
At 31 December 2009	**45,168**	**31,557**	**(2,245)**	**35,345**	**109,825**

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

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

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

NOTE 32 – (ACCUMULATED LOSS)/RETAINED EARNINGS

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

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

NOTE 33 – NON-CONTROLLING INTERESTS

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

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

	2009	2008	2007
	(in thousands of HRK)		
Issued bonds	336,300	318,750	354,000
	336,300	**318,750**	**354,000**

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

The effective interest rates on the statement of the financial position were as follows:

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

NOTE 35 – BORROWINGS

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

Bank borrowings in the amount of HRK 712,190 thousand (2008: HRK 647,716 thousand) are secured by mortgages over the Group land and buildings (Note 20).

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2009	2008	2009	2008	2009	2008
			(in thousands of HRK)			
Up to 1 year	7,345	6,434	2,494	2,509	4.851	3.716
Between 1 and 5 years	27,072	15,389	10,078	7,919	16.994	7.470
After 5 years	23,179	29,878	5,362	8,473	17.817	21.614
Less: future finance charges	**(17,934)**	**(18,901)**	**(17,934)**	**(18,901)**	**39.662**	**32.800**
Present value of minimum lease payments	**39,662**	**32,800**			**39.662**	**32.800**
Included in the financial statements within:						
Current borrowings					4,851	3,716
Non-current borrowings					34,811	29,084
					39,662	**32,800**

NOTE 35 – BORROWINGS (continued)

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

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

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

The maturity of non-current borrowings is as follows:

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

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

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

During 2009, the existing long-term borrowings were repaid in accordance with the 2009 repayment schedule. During 2009, Belupo d.d. utilised a new long-term loan for fixed assets provided by Raiffeisenbank, Klagenfurt, in the amount of EUR 4.5 million for a period of 5 years and with an interest rate of 1-month EURIBOR + 2.45 % p.a., and Danica d.o.o. used a long-term loan for fixed assets provided by Podravska banka Koprivnica in the amount of EUR 2,185,000 for a term up to 1 October 2010, with an interest rate of 8.6 % annually.

Podravka d.d. issued the first tranche of commercial papers in the amount of EUR 18 million, with an interest of 9.05%, at the issue price of 91.722 %, a maturity of 364 days, with Raiffeisenbank Austria d.d., Zagreb, as the dealer. The commercial papers are included within current borrowings.

NOTE 35 – BORROWINGS (continued)

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

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

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

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

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

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

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

The Company has the following undrawn borrowing facilities:

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

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

NOTE 36 – PROVISIONS

(in thousands of HRK)	**Jubilee awards**	**Vacation accruals**	**Regular termination benefits**	**Termination benefits**	**Legal actions**	**Total**
Analysis of total provisions as at 31 December 2008						
Non-current	14,342	-	8,041	-	4,956	27,339
Current	2,108	11,892	112	2,363	200	16,675
At 1 January 2009	**16,450**	**11,892**	**8,153**	**2,363**	**5,156**	**44,014**
Charged/(credited) to profit or loss:						
Increase of provisions	-	13,594	1,710	1,077	7,130	23,511
Utilised during the year	(2,080)	(7,954)	(102)	(791)	(2,884)	(13,811)
At 31 December 2009	**14,370**	**17,532**	**9,761**	**2,649**	**9,402**	**53,714**
Analysis of total provisions as at 31 December 2009:						
Non-current	12,154	-	9,634	102	7,336	29,226
Current	2,216	17,532	127	2,547	2,066	24,488
	14,370	**17,532**	**9,761**	**2,649**	**9,402**	**53,714**

Employee benefits

This provision comprises estimated employee benefits relating to unused vacation days and jubilee awards, as defined by the collective bargaining agreement, and bonuses to executive directors. The non-current provision relates to the estimated acquired rights to jubilee awards that will be paid after 2009.

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

Termination benefits

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

Legal actions

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

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

NOTE 37 – TRADE AND OTHER PAYABLES

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

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

Other liabilities include the following:

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

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

NOTE 38 – RETIREMENT BENEFIT PLAN

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

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

NOTE 38 – RETIREMENT BENEFIT PLAN (continued)

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

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

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

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

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

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

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

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

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

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

NOTE 38 – RETIREMENT BENEFIT PLAN (continued)

Of which by maturity:

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS

39.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

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

The gearing ratio at the reporting date was as follows:

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

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

39.2. Significant accounting policies

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.3. Categories of financial instruments

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

39.4. Financial risk management objectives

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.5. Market risk

Commodity risk management (price risk)

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

The Purchase function has been centralised, which in itself provides the Group the status of a reputable customer on the market, with a fine starting position to negotiate prices. Fixed rate, long-term framework agreements are entered into, with the terms and conditions defined in line with the market trends. Thus, the Purchase function monitors regularly the global trends on commodity exchanges and uses regular market reports provided by strategic suppliers, which serves as the basis to respond on the spot market whenever a certain commodity has reached a favourable price for the Group.
The Group does not use any forward agreements to manage its exposure to the risk of fluctuation in food material prices.

Sales function based risk

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

39.6. Foreign exchange risk management

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

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

Foreign currency sensitivity analysis

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.6. Foreign exchange risk management (continued)

The following table details the Group's sensitivity to a 2.5 % increase (2008: a 3.04 % decrease) in Croatian kuna against the relevant foreign currencies. The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR impact		**USD impact**	
	2009	**2008**	**2009**	**2008**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	-	8,031	123	62
Loss	16,186	-	-	-

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

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

39.7. Interest rate risk management

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the interest expense of the Group for the year 2009 would have changed by HRK 3,802 thousand (2008: 7,725 thousand).

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.8. Other price risk

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

39.9. Credit risk management

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

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

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

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

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

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

39.10. Liquidity risk management

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

Liquidity and interest rate tables

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.10. Credit risk management (continued)

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

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

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.10. Liquidity risk management (continued)

The tables below detail the remaining contractual maturities of the Group's assets presented on the statement of the financial position at the period end.

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2009							
Non-interest bearing		813,519	199,091	120,597	9,683	-	1,142,890
Interest bearing	1.21	141,538	49,376	2,866	3,846	4,177	201,803
		955,057	248,467	123,463	13,529	4,177	1,344,693
2008							
Non-interest bearing		849,211	239,440	196,823	8,232	-	1,293,706
Interest bearing	4.31	275,760	154,031	18,581	60,915	4,471	513,758
		1,124,971	393,471	215,404	69,147	4,471	1,807,464

39.11. Fair value of financial instruments

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

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

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

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

At 31 December 2009, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their market value due to the short-term nature of those assets and liabilities.

NOTE 40 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares are granted to members of Management and certain executive directors in accordance with the applicable Contracts effective for the periods from 2000 to 2006, and those applicable in the years, 2007, 2008 and 2009.

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

Options granted to Podravka d.d. employees

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

Options granted to Belupo d.d. employees

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

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

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

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

Option series	Number of options	Grant date	Exercise date	Exercise price	Fair value at the grant date
Series 31/12/2004	10,000	2004	2009	198.04	239.00
Series 31/12/2005	8,750	2005	2010	296.69	318.00
Series 31/12/2007	33,800	2007	2010	535.25	510.00
Series 31/12/2008	36,799	2008	2011	361.14	261.00
Options granted during 2009					
Series 31/12/2009	9,800	2009	2012	238.39	296.99

NOTE 40 – SHARE-BASED PAYMENTS (continued)

Employee share options (continued)

Inputs

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

Overview of option balances and exercised options

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

Outstanding at the year end

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

NOTE 40 – SHARE-BASED PAYMENTS (continued)

Employee share options (continued)

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

NOTE 41– RELATED PARTY TRANSACTIONS

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

NOTE 42 – ACQUISITION OF SUBSIDIARIES

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

42.1. Subsidiaries acquired in 2008

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

42.2. Analysis of acquired assets and liabilities

Lero d.o.o.

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

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

Lero d.o.o. was established by the Seller for selling purposes, with the fair value of the fixed assets contributed to the company's capital being appraised on its establishment. The company was established and sold during 2008. As a result, the carrying amounts presented above approximate the fair value of the company.

NOTE 42 – ACQUISITION OF SUBSIDIARIES (continued)

42.2. Analysis of acquired assets and liabilities (continued)

Acquirees of Belupo d.d. during 2008:

Farmavita d.o.o.

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

Belupo d.d. acquired an equity share of 65% in Farmavita d.o.o., Sarajevo, at a total cost of HRK 71,944 thousand.

NOTE 42 – ACQUISITION OF SUBSIDIARIES (continued)

42.2. Analysis of acquired assets and liabilities (continued)

Drugstores

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

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

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

42.3. Cost of acquisition

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

42.4. Net outflow on acquisitions

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

NOTE 42 – ACQUISITION OF SUBSIDIARIES (continued)

42.5. Goodwill arisen on acquisition

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

42.6. Impact of acquisitions on the results of the Group

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

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

In determining the ‘pro-forma’ revenue and profit of the Group, had the business combinations been effected at 1 January 2008, the directors have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre-acquisition financial statements;

- based borrowing costs on the funding levels, credit ratings and debt/equity position of the Group after the business combination; and

- excluded takeover defence costs of the acquiree as a one-off pre-acquisition transaction.

NOTE 43 – CONTINGENT LIABILITIES

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

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

NOTE 44 – COMMITMENTS

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

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

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

NOTE 45 – SUBSEQUENT EVENTS

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

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

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

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

NOTE 46 – APPROVAL OF THE FINANCIAL STATEMENTS

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

Miroslav Vitković

President of the Management Board