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INTRODUCTORY STATEMENT FROM THE MANAGEMENT BOARD PRESIDENT

Dear shareholders,

I believe we all have the same goal, to have a better, bigger and stronger Podravka. In order to realize that goal, at the very beginning we took some actions which are already evident in this Annual Report. What we wanted to show this year, and what was our starting point was to objectively see the current business status within the company. Perhaps some of the moves we made were not greeted with understanding, but it is a basis to define activities which will guide in the direction of achieving supreme financial results, which in turn will ensure a leading position for Podravka, both in Croatia and the region, which it certainly deserves.

Podravka is a company of great brands and numerous products. We all know that they do not all have the same power or recognizability as Vegeta, which remains our strongest and biggest brand, along with Lino baby food. Podravka truly has many more good brands, but also those which will require a lot of effort to make them better and more successful in order for us to be able to take advantage of all of their potentials.
High quality of our products represents a competitive edge on which Podravka has been building the trust of its consumers, and it is something we have never made any compromises with, and it is what makes us a different company from others. The difference is also recognized by our consumers.

But that is not enough; we need to be more efficient in changes, in market adaptations, we have to use opportunities given, because some of them have been missed in the past years. Every part of Podravka, be it food or beverages or pharmaceuticals, will experience numerous business challenges. Therefore we are currently building Podravka Group strategy which should bring the expected changes after it is implemented. Every part of Podravka is participating in creation of this strategy, the entire Podravka Group, and the goal is a better synergy within the Group.
We wish to justify the trust that has been given to us, and we will try to realize the plans we have set and which were approved by the owners. For every move we make, and which will be reflected on the future, we need a better understanding of own potentials, strengths and weaknesses, and to know where we are going, and how we are going to get there. Before us stands a period of great engagement of all employees within Podravka Group, strenuous efforts and strong faith that we can and must succeed. Much was achieved in company's history by the employees and their faith in Podravka. There is no reason that today as well we should not have the same trust in Podravka, its products and potentials that the company certainly has.

Podravka Management President
Zvonimir Mršić

PODRAVKA GROUP IN 2011

BUSINESS EVENTS

Awards to Podravka Poland
Podravka Poland received two awards for successful business: "Forbes Diamonds" and "Gazelle of Business", confirming thus its status of a successful and promising company on the market of Poland.

Kosher Certificate for Kalnik factory
Podravka's factory Kalnik was awarded the Kosher Certificate for the production of mustard and pasteurized and sterilized vegetables.

Investors Day held at Podravka
The second Podravka Group Investors Day held in Koprivnica on 18 March 2011 gathered numerous representatives of investment and pension funds, as well as analysts tracking Podravka's business. Apart from presenting business results for 2010, the purpose of holding the Investors' Day was to increase the company transparency and to enable open communication between the Management Board and the interested investors.

Trusted Brand for Lino baby food
For the third time Lino baby food has been crowned with the Trusted Brand Award awarded by the Reader's Digest magazine, based on the assessments of their readers. This is one of the biggest European researches on consumers' trust in consumer goods, organised in 16 countries.

Vegeta was awarded in Latvia and Lithuania
Vegeta was awarded with the "TOVAR GODA 2010" (Product of the Year 2010) award in Latvia and Lithuania which confirmed Podravka's leading position on the markets of the Baltic region.

Redemption of bonds - notice
Podravka d.d. redeemed bonds in the amount of HRK 375 million on the due date of 17 May 2011. These bonds were included on the Official Market of the Zagreb Stock Exchange under the symbol PODR-O-115A.

Studena awarded with Superior Taste Award
Prestigious testing "Superior Taste Award 2011" resulted in Studena receiving a credible verification of its supreme taste and quality, and three star grade. It is also the highest grade that a food item can get, and it is awarded by the International Taste & Quality Institute from Brussels - one of the leading world organizations evaluating the taste quality of all product categories in the food and beverages segment.

General Assembly of Podravka d.d. shareholders held
The General Assembly of Podravka d.d. was held on 14 July 2011 where it was decided that last year's net profit amounting to HRK 10.9 million would be distributed for the coverage of the loss carried forward from previous years. Apart from this, resolutions were passed on the amendments to the Articles of Association of Podravka d.d. and members of the Management and Supervisory Boards were discharged, accordingly.

Podravka shares owned by Fima AMI Ltd. sold
A total of 576,880 shares of Podravka d.d. in the ownership of FIMA AMI Ltd. were sold on 19 July 2011. The average price in the transaction was HRK 312.87, and the buyers were from mandatory pension funds (75.57%), voluntary pension funds (4.27%) and other domestic funds (17.44%), insurance companies (1.59%) and foreign investors (1.13%).

Grand Prix and golden medal for Studenac and the most effective campaign
"Studenac - a guarantee of good spritzer" is the most effective marketing campaign in 2011 in Croatia. Effie Award aims to recognize and reward, educate and emphasize the importance of effective marketing business. Effie Award is a confirmation for achieving goals and results set, which are the main tasks of marketing communication.

New Lino website launched
At www.lino.eu Podravka launched redesigned Lino.eu website. New Lino site is the answer to wishes of our visitors, fans and consumers of Lino products for richer content and more frequent interaction. The site is designed for kindergarten children, primary school lower grades, teens and parents.

Settlement Agreement concluded
On 23 November 2011 Podravka d.d, OTP Bank Plc and MOL Hungarian Oil and Gas Company, Plc from Budapest concluded a Settlement Agreement discharging all mutual claims and liabilities between contractual parties arising from the Agreement concluded on 27 March 2009 concerning 10.64% of Podravka d.d. shares.
Upon the fulfillment of the contractual liabilities arising from the above mentioned Settlement Agreement, Podravka d.d. shall have positive effect on the business result for 2011 in the amount of HRK 19 million on the grounds of releasing earlier reserved funds.

PODRAVKA GROUP RESEARCH AND DEVELOPMENT

Podravka's product research includes 11 specialist departments and offices covering the most important technological and business areas in food industry: food and food seasonings; sweets, snack and mill and bakery products; fruit, vegetables, condiments and side dishes; baby food, sweet spreads and breakfast cereals; beverages; meat and meat products; fish; raw base; sensoring and nutritionism, technology development and packaging development. Basic activities of these departments are focused on development of new products and advancement of the existing ones. Product development department participates in devising products, from the initial idea, through building draft product proposal, test production to final product design, compliant to market demands and applicable legislature. But development work does not end here, it continues through tracking the product throughout its life span. Except for developing products in development units, production and control processes are constantly being improved. It is with particular attention that we track the development of science in food industry, consumer trends, and products are constantly aligned with current awareness of regular and healthy diet.

Apart from this, great attention is paid to development and application of new technologies and the shape of the packaging. This area is important both from the aspect of product quality and ecology and environment protection. We pay special attention to information contained on product declarations, product design, their organoleptic quality, nutritive and other features. The activities are taking place in close cooperation with other departments within the company, but the cooperation with leading experts and institutions outside Podravka is also not ignored.

Development departments use in their work the latest world discoveries and state of the art methods and equipment. Such an example is the Central semi-industrial laboratory, unique in this region. This laboratory is equipped with sophisticated processing equipment that enables fast determination of technological and economic feasibility of ideas and an easy transition of ideas into concepts and new products. All this enables the creation of new opportunities necessary for company's advancement and growth. All stated is performed in order to achieve a higher level of consumer satisfaction with Podravka's products and to ensure their leading position.

Belupo develops, perfects and produces medications (prescription and over-the-counter products), dietetic products and medical cosmetic products. Development tasks are performed in the new modern pilot laboratory built according to the good manufacturing practice, certified by domestic and international pharmaceutical inspection. Quality and stability of development products is tested in laboratories having state-of-the-art analytical equipment.

Over 2011 five new brands were launched to the market, along with eight extensions of the existing ones, enriching Belupo's portfolio with eight new active substances in 11 different doses and 23 package size.

Of 11 new doses, there are 8 new prescription medicines, 2 over-the-counter, and 1 new product in groups of dietetic products. They are products having effect on cardiovascular, nervous, respiratory, bones/muscles, blood producing and digestion system and antibiotics.

NEW PRODUCTS IN 2011

Lino lada nougat
Lino lada nougat contains 13% of hazelnuts and in combination with chocolate gives a fullness of flavour and provides supreme pleasure. Apart from being very tasty, Lino lada nougat is rich in vitamins and minerals. Hazelnuts are a natural source of minerals and vitamin E, while our body needs calcium derived from milk to build bones and teeth.

Muffins with cherry filling
This product is rich in flavor and contains a high proportion of the whole fruit and fruit pieces of pitted cherries. A package of Muffins with cherry filling contains a mixture for dough, cherry filling and paper cups, and is enough to prepare 12 muffins. Preparation is very fast and simple.

Dolcela nougat pudding
Nougat pudding is the perfect blend of the finest hazelnuts and your favorite chocolate, which melts in the mouth and delights with its scent and creamy consistency. This magical delight with its scent and flavor that melts in your mouth leads you into a whole new world of pleasure.

Lino & Play Mix cereals
Lino Mix&Play apple'n'cookie, Lino Mix&Play choco'n'nut and Lino Mix&Play choco'n'muesli are new cereal under the Lino brand characterized by quick and easy preparation at any time during the day. The products are a delicious mix of flakes and supplements such as corn flakes, muesli, bits of fruit and chocolate which provide a tasty delight and are a source of additional energy.

Natur soups
Natur soups have a rich vegetable taste and natural colour and contain no flavour enhancers, colorants or aromas. The following soups are included in the Natur soup product range: Natur soup with semolina balls, Natur vegetable soup with noodles, Natur cream mushroom soup and Natur cream broccoli and cauliflower soup.

Vegeta Mediterranean herb mix
Vegeta Mediterranean herb mix is a supplement that gives food a characteristic taste of Mediterranean herbs and spices (oregano, basil, rosemary, marjoram, thyme, bay leaf). Lovers of healthy food will welcome the fact that Vegeta Mediterranean mix contains no artificial flavours and enhancers.

Podravka ready-to-serve canned meals
A novelty in the product range of Danica meat industry ready-to-serve canned meals are four new products: Beef with mushrooms, Chicken stew, Chicken in salsa, Chicken in béchamel sauce. Podravka ready-to-serve canned meals are ready in no time and are the perfect choice for a quick and light lunch or dinner.

Podravka pasta
Podravka pasta is produced from highly nutritious durum wheat grits, so during cooking it maintains its shape, firmness, nice yellow color and delicious taste. Podravka offers five different shapes of pasta in 500 g freestanding bags, and three shapes in 340 g boxes with 4 individual packages in ready-to-use bags, which is a kind of innovation on the market.

Podravka rustica mustard
Podravka rustica mustard is based on the estragon mustard and is seedier in structure as mustard seeds are only partially grained. Podravka rustica mustard is a perfect side dish that accompanies all spicy dishes from the grill or oven, ideal for the preparation of excellent vegetarian dishes, sauces and marinades.

Eva piquant tuna spread
This is an exceptionally tasty and convenient product for all fans of mildly piquant seafood. Fine quality tuna fillets and carefully selected seasonings combined with the sharpness of chilly and mildly rich aroma of red paprika, are combined in a taste to allure anybody's palate. The attractive, gently red color completed with discreet pieces of red paprika, spreadable and mildly piquant taste without preservatives make this spread a perfect choice for supreme gourmet delight. Apart as a cold appetizer or a simple bread spread, the product can be used for preparing imaginative decorations.

Lino Njammy
Cereals for children are enriched with another product of supreme chocolate taste. Lino Njammy are a crunchy chocolate extrudate in the shape of teddy bears which is served as cereal with milk but can also be a delicious snack product. The product contains vitamins, calcium and iron.

Muffins with apple filling
Muffins with apple filling is a mixture enriched with cinnamon, clove and anise. Their irresistible scent reminds us of winter and Christmas making the taste of muffins fuller and richer. Apart from the mix, the package also contains apple filling and cake molds. The inner side of the box of Muffins contains a coloring book for children that can be colored or used for cutting.

Lero fruit syrups
Lero fruit syrups with the taste of orange-cinnamon, lemon-mint, strawberry vanilla and raspberry-jasmine are new combinations of fruit aromas and spices that give new flavors to refreshing beverages made from fruit syrups.

Apple and cinnamon fruit spread
Apple and cinnamon fruit spread has a natural color and taste of apple complemented with a touch of cinnamon. It contains a high percentage of fruit of as much as 60%, which is present in the spread in small cubes and as apple puree, and in combination with a reduced content of sugar confirms this is a highly valuable product.

Neofen syrup
Neofen syrup is intended for reducing fever and for treatment of mild to moderate pain of various origin for children over three months of age. It is used for high fever, pain in ear, teeth, teeth growth, headache, pain related to influenza and flue, and other. It has a mild taste of passion fruit and orange and contains no sugar, artificial colors or alcohol, and is therefore very acceptable for the palates of the youngest consumers.

Alfakut oral drops
Alfakut oral drops is a herbal medication used for alleviating the symptoms of bronchitis. It is intended for children from 1 - 6 years of age, as recommended by the doctor, while for older children and grownups is can be obtained over the counter, for symptomatic therapy of bronchitis.

Sun Bevital extra
Bevital sun extra is a mixture of carotenoids and vitamins E and C, and it is applied for the protection of the skin from harmful effect of UV radiation. Due to the selected contents of active substances, BEVITAL SUN EXTRA is a product with excellent dietary supplement for preparing skin before tanning, as an aid to faster darkening and to preserve natural complexion.

Hederan herbal syrup
Hederan is a herbal syrup used to reduce cough and as an expectorant for bronchial mucus which is disabling breathing and thus enables better expectoration.

Neofen Plus Gel
Neofen plus gel is a medication with analgetic and anti-inflammatory effect, applied locally for treating rheumatic pains, muscular pains, back pains, pains and swelling caused by dislocations, sprains and other sport injuries and neuralgia. After being applied to a painful place, it quickly alleviates pain, slightly cools and does not grease the skin or clothing.

SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

PODRAVKA D.D. SUPERVISORY BOARD MEMBERS BIOGRAPHIES

Ljubo Jurčić
Supervisory Board President (until 24 February, 2012)
He graduated from the Foreign Trade Faculty in Zagreb in 1981, and received his Master's degree in 1985 from the Faculty of Economy and Business in Zagreb. From that same Faculty he received his PhD in economic sciences in 1997. Having graduated, he finds his employment at Tvornica elektrotehničkih proizvoda Zagreb, and in 1986 he is employed at Progres, a company for research and development services and consulting in Zagreb as the foreign trade adviser. At Tvornica elektrotehničkih proizvoda in 1987 he becomes the foreign trade director. Since 1986 he is employed at the Faculty of Economy and Business in Zagreb as a part-time assistant, and becomes full time employee in 1990. He published numerous scientific and expert works, lectured at many expert lectures and is the editor of "Ekonomist" magazine. He is a member of several professional associations (European Economic Association, International Economics and Finance Society, International Input-Output Association, New York Academy of Sciences, American Management Association).

Ksenija Horvat
Supervisory Board Deputy President (until April 8, 2011)
In 2000 she graduated from two year post-graduate studies of economy at the Faculty of Economy in Zagreb and was appointed purchasing officer in retail for the Croatian market. Since 2005 she has been studying journalism part time at the Faculty of Political Science. In the academic year 2000/2001 she completed the course of SSSH (Independent Trade Union of Croatia) Centre for Industrial Dialogue. In April 2001 Ms. Horvat was appointed head union representative of the PPDIV Union of Podravka d.d. and in July the same year, coordinator of the PPDIV Union for the Podravka Group, which position she also holds in the new term of office after the last elections in 2003. Since Employee Council elections in 2005, she is deputy president of the Employee Council of Podravka d.d. the president of this body is from August 2009 till February 2010, when she is again its deputy president.

Martinka Marđetko-Vuković
Supervisory Board member (from April 8, 2011)
In 1979 she graduated from Koprivnica high school and found employment at Podravka as an administrator. In 1990 she finished afterhour two-year School of Agriculture and later worked as planner-analyst in the Economic center at Podravka, and later in Controlling. She is the president of Podravka Independent Union, Worker's Council member ever since the first worker councils were formed in 1996, when she was vice president. Today she holds a degree of safety engineer and works as sector director adviser for occupational safety in Human Resources sector at Podravka d.d.

Dubravko Štimac
Supervisory Board member (until February 24, 2012); Supervisory Board President (from 24 February 2012)
He graduated from the Faculty of Economy and Business in Zagreb in 1992. From that same faculty he received his MA in 1997, Organization and Management course. He was an independent sales clerk at Zagrebačka tvornica papira (Zagreb paper factory) d.o.o. from September 1993 till September 1994. From September 1994 till November 1997 he worked as an independent officer in foreign trade at PBZ Investholding d.o.o. where he became the manager of the foreign trade sector. From March 1998 till June 1998 he worked as an assistant director of the Securities center at Privredna banka Zagreb d.d. where he became director of the Securities Ward at the same bank. In January 2001 he became the project manager of the retirement reform at Privredna banka Zagreb d.d. From October 2001 he is the president of the Board of PBZ CROATIA osiguranje d.d., the association for managing obligatory pension fund. In 1995 and 1996 was a part time lecturer at the Faculty of Economy and Business in Zagreb, subject International economy. He authored several articles and research papers, he participated and spoke at several foreign and domestic conferences with subjects on capital markets.

Dinko Novoselec
Supervisory Board member
Dinko Novoselec, CFA, is currently the Management Board president of Allianz ZB company for managing the mandatory pension fund. Mr. Novoselec was born in 1968 in Bjelovar and graduated math at the Faculty of Science. Since 1997 he works at the Croatian National Bank on managing foreign reserves. In late 1998 he transfers to Zagrebačka banka as the head of the analytics department, and in mid 2000 he transfers to ZB Invest, the company for managing the investment funds as the Management Board member.
Since 2001 he is a Management Board member of Allianz ZB d.o.o., the company that manages AZ mandatory pension fund, and in April 2003 he was appointed Management Board president of the Allianz ZB, the company for managing the mandatory pension fund.
In 2000 he receives his CFA (Chartered Financial Analyst), a program organized by an American Association of Investment Professionals ICFA.

Petar Vlaić
Supervisory Board member
He graduated from the Faculty of Electrical Engineering and Computer Science in Ljubljana. In 1993 he is employed as a teacher of physics in Secondary school of chemistry in Ljubljana. In 1994 he transfers to brokerage house Ilirika, where he stared as a broker, and later becomes portfolio manager and trade manager. In 1996 he becomes the first fund manager in the Republic of Croatia in the first Croatian investment fund Kaptol Proinvest. Later on he works as a trade manager in IB Austria, upon which he transfers to the position of fund manager at the Central National Fund, a private investment fund. In 2001 he becomes the Management Board president of Erste d.o.o. for managing Mandatory Pension Fund. He is a long year journalist, associate for the Ljubljana daily paper Delo with the subjects of Croatian capital market. He holds a license for performing broker activities and portfolio management in Ljubljana, a license for trading in the derivatives market in Ljubljana, a license to perform the activities of an authorized broker in Zagreb and a license of an authorised pension fund manager.

Petar Miladin
Supervisory Board member
He graduated from high school and the Faculty of Law in Zagreb. Upon finishing his studies he worked as a trainee in the County and Commercial Court in Zagreb. He passed his bar examination in 1999. He received his MA at the postgraduate scientific study in commercial law and companies law at the Law Faculty of the Zagreb University, defending his master's thesis in 1999 with the title Banking secret and banking reporting. He defended his doctoral dissertation "Payment by remittance" on 27 January 2005 at the Faculty of Law at the Zagreb University, receiving his PhD in scientific field of law. He is employed at the Law faculty in Zagreb in May 1997 as a junior assistant at the Department for commercial law and companies law. In December 1999 he becomes the assistant at the same department where he works as a senior assistant from March 2005. He works as an assistant professor at the Faculty of Law in Zagreb University since 15 December 2005 and since 1 April 2009 he is full professor. He published over twenty scientific works in the area of commercial law, companies law and banking law. He is fluent in German and English language.

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

Miljenko Javorović
Supervisory Board Member (until February 24, 2012)
He graduated from the Faculty of Economy and Business at the Zagreb University, received his MA from the Law Faculty at the Zagreb University at the postgraduate study "Fiscal system and fiscal politics". He is perfecting his knowledge at various courses and educations. In 1989 he becomes authorised auditor, in 2000 authorised agent and authorised insurance representative, and in 2007 authorised tax adviser. He is starting his career at Služba društvenog knjigovodstva as senior counselor for business inspections and legal person control. From 1993 to 2000 he is the Management Board President of Invest consult d.o.o. From 2000 to 2006 he is the Management Board President of Libertas osiguranje d.d., and since 2006 he holds the position of Management Board President of Hrvatsko mirovinsko investicijsko društvo d.o.o. He lectures numerous seminars in the areas of accounting, auditing, finance and insurance. He is the head of numerous seminars for financial inspectors and auditors and head and lecturer at seminars for tax regulations. He is also editor in chief for the "Novosti" magazine published by Libertas osiguranje d.d. He publishes scientific and professional works.

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

Mato Crkvenac
Supervisory Board Deputy President (from February 24, 2012)
He graduated from the Faculty of Economy and Business in 1968, and received his MA from the Institute of Economic Sciences in Belgrade in 1973. He received his PhD from the Faculty of Economy and Business in 1978. In 1968 he is employed at the Republic Institute for Planning, and in 1973 he becomes sector director at the Republic Institute for Economic Movements and Economic Policy. In 1978 he becomes the general manager at the Republic Institute for Planning and also a member of the Executive Council of the Parliament of SRH, and in 1986 he becomes a representative and deputy chairman of the Parliament of SRH. From 2000 to 2004 he performed the duties of a finance minister in Croatian Government, and from 2004 to 2007 he was a representative in Croatian Parliament. At the same time he is part time, and in some periods full time employed at the Faculty of Economy and Business in Zagreb, and from 1973 is an assistant and scientific assistant, in 1983 he was elected senior lecturer, in 1987 associate professor, and in 1991 he was elected as full professor.

Ivo Družić
Supervisory Board Member (from February 24, 2012)
He graduated from the Faculty of Economy and Business in Zagreb in 1973, received his MA in 1981 and his PhD in 1988 from the same Faculty. He is permanently employed at the Faculty of Economy and Business in Zagreb as a full time professor. He stayed in Brighton, England at the University of Sussex as a Visiting Fellow in 1990/91, and as a Research Fellow in 1994 at the University of Pittsburgh in the USA. He was also a Visiting Professor in 1995 at the University of Beijing in China, and in 1997/98 at the University of Pittsburgh. He is the head of the scientific postgraduate study of the Economy and Development at the Faculty of Economy and Business in Zagreb.

PODRAVKA D.D. MANAGEMENT BOARD MEMBERS BIOGRAPHIES

Miroslav Vitković
Management Board President (until February 24, 2012)
He graduated from the Faculty of Food Technology and Biotechnology in 1992. He finished IEDC Bled Business School and many professional seminars. After completing his studies, he started his employment with Podravka, where he has performed the duties of import officer, sales director of Podravka International - Prague, after which he was sales director of Podravka International - Bratislava. Since 2001 he was executive director for the markets of Croatia and South-East Europe. Since 2003 till 2008 Mr. Vitković has been performing the duties of Podravka Management Board member in charge of Croatian market, and in July 2008 he becomes Deputy President of Podravka's Management Board. He was appointed president of this Board on 21 December 2009.

Marin Pucar
Management Board Member (until February 24, 2012)
He graduated from the Faculty of Economy and Business at the Zagreb University. In addition to many educational programs and courses, he acquired a Professional Diploma in Retailing Management at the Leeds Metropolitan University and he attended Podravka's Management Academy POMAK. Having finished his studies, Mr. Pucar got his first job at Gavrilović meat industry where he was engaged in various working positions: from salesman, product manager to brand manager. He found his employment at Podravka in 2001 as the Sales Director in Podravka's Meat Industry Danica, after that he became the Director of Sales, Marketing and Development. In early 2003 he was appointed director of Meat Program for Croatia and Southeast Europe, and in late 2003 he became a Sales Executive for Croatian Market until July 2008, when he was appointed member of Podravka's Management Board.

Lidija Kljajić
Management Board Member (until February 24, 2012)
She graduated from the Faculty of Economy and Business at the Zagreb University, Finance and Accounting course. Over her career she attended series of seminar and professional educations in the area of finance and participated at Young Executive Program by Carlsberg. She graduated from POMAK (Podravka Managers Academy, Fundamental Business Administration and Leader programs) and from Leeds Metropolitan University (Retailing Management program, Professional diploma). She starts her career as an accounting officer at the local trading company in Đurđevac and continues as an independent officer at the Foreign Currency sector at Podravka banka. In 1999 she becomes Treasury director at Panonska pivovara d.o.o. today's Carlsberg Croatia Brewery. In 2001 she is employed at Podravka as director for Financing in local currency, and since 2004 to 2007 she is the head of the Podravka Management Board President's Office. Except for organizing the operations within this Office, she is also in charge of the Investor Relations Office. Since 2007 she is the director of the Controlling sector at Podravka. In October 2009 she was appointed Podravka Management Board member.

Krunoslav Bešvir
Management Board Member (until February 24, 2012)
He graduated from the Faculty of Economy and Business at the Zagreb University, Foreign Trade course. Over his professional career he participated at numerous educations organized by IEDC Slovenia: International summer school for junior managers, marketing seminars, general management program (seven modules); then POMAK (Podravka Management Academy), education program organized by Leeds Metropolitan University (Professional Diploma in Retailing Management). He is employed at Podravka in 1998 as product manager in charge of Baby food in Marketing sector. Following that position he is marketing manager for Podravka d.o.o., Sarajevo, B&H, and in 2001 he is the director of Podravka d.o.o. Belgrade, Serbia. In 2007 he is the director for the Southeast Europe markets, and in 2008 he is the director for Food business program. In October 2009 he is appointed member of Podravka Management Board.

Miroslav Repić
Management Board Member (until February 24, 2012)
He graduated from the Faculty of Food Technology and Biotechnology in 1986. He also finished several business modules and seminars at IEDC Bled Business School and many expert seminars. During his career he attended several internal seminars organized by Podravka with the purpose of expanding professional knowledge and management skills. Having graduated, he found his employment at Podravka where he works even today. He performed the tasks of lead technologist at the Yeast factory, then he was the director of the Yeast factory, and among other functions within Podravka, he was also the head of joint venture project with Elite International B. V., Holland, in the coffee production business, and head of the yeast business disinvestment project. After that he was the director of Central European Market sector in the period from 2004 to 2005. He was the Production sector director from 2005 to 2008. Since 2008 until he is appointed member of Podravka Management Board, he is responsible for "business to business" product categories intended for big industrial buyers at Podravka level and for the entire process of tendering, contracting and realization of service production. He was appointed Podravka d.d. Management Board member on 31 May 2010.

Zvonimir Mršić
Management Board President (from February 24, 2012)
He graduated from the Faculty of Political Sciences in Zagreb in 1990, and is an ABD from the postgraduate study Theory and policies of marketing at the Faculty of Economy and Business in Zagreb. From 1990 to 1998 he is employed at Podravka at various posts, from journalist, department head and manager of Public Relations department. In 2000 he becomes the Head of Public Relations and Protocol Office of the City of Zagreb and since October 2000 he is Investor Relations manager at Podravka. Apart from his business career, he also has a very successful political career. From 1997 to 1999 he is deputy mayor of the city of Koprivnica, and then since 2001 to 2012 he is the mayor of Koprivnica in three terms. He participated in the Homeland War, and is decorated with medals for participating in the operations "Storm" and "Flash" and with the Commemorative Medal of the Homeland War, and he is also the Croatian Army reservist. He completed the FBA (Fundamentals of Business Administration) at the Faculty of Economy and Business in Zagreb and a certified program for supervisory board members. He is a member of the Croatian Public Relation Association and a member of the presidency for the Cities Association. He published numerous newspaper articles. He is an author of the first Podravka's educational film on sales promotion and of several professional articles in the field of public relations and marketing. He edited several books.

Jadranka Ivanković
Management Board Member (from February 24, 2012)
She graduated from the Faculty of Economy and Business, where she received her MA from Business Economy, Business Management course. In 2010 she received her PhD from social sciences, Marketing branch. In 1988 she worked at Podravka at the positions of an independent controlling analyst, since 1993 she worked as Advertising Project Manager and in 1995 she becomes head of Sales Promotion Department for Foreign Markets. In 1997 she becomes a member of the Team for Restructuring Podravka to achieve profitable growth. That same year she was appointed Marketing director at Podravka. In 1999 she becomes Team Leader for Strategic Projects at Podravka and in 2000 she is Management Board member in charge of finance for Podravka's company in Slovenia. In 2001 she becomes executive manager of the strategic business unit Desserts program. In 2004 she was appointed assistant to Podravka Management Board President. Since 2009 she is a lecturer, and in 2010 she is senior lecturer at Vern University of Applied Sciences. She graduated from Podravka's Management Academy POMAK, received a Professional Diploma in Retail Management and MBA from IEDC-Center Brdo, Brdo kod Kranja.

Olivija Jakupec

Management Board Member (from February 24, 2012)

She graduated from the Faculty of Organization and Informatics in Varaždin, Marketing course. Since 1992 she is employed at Podravka as Product manager for Fererro, being in charge of promotion and realization of marketing activities in the Croatian market, in cooperation with Fererro representative. In 1993 she becomes marketing manager in Podravka's company in Bulgaria, where she worked on founding and registering the company, and cooperated with importers and advertising agencies on promotion of Podravka's products. In 1997 she was appointed director of Podravka's company in Russia where she also worked on founding a company, setting up business processes within the company, cooperated with importers and distributors, advertising and research agencies. In 2001 she becomes Market Communication manager. In 2004 she transfers to Nexe Group and becomes director of Nexe company in Bosnia and Herzegovina. Since 2007 she worked as an assistant director at Jadransko osiguranje branch office in Koprivnica. She attended IEDC-Center Brdo, Brdo kod Kranja in the area of business processes and perfection of management skills.

Miroslav Klepač

Management Board Member (from February 24, 2012)

He graduated from the Faculty of Economy and Business, Banking and Finance course. Since 1998 he worked as Finance Associate for CA IB - Investment Bank of Austria Creditantstalt Group at Central and EastEuropean markets and on managing merge and acquisition projects. Since 2000 he worked as T-com (HT d.d.) CEO advisor on financial and operating analyses and activities within the acquisitions group. In 2002 he was appointed Controlling director at T Mobile d.o.o., and in 2004 he becomes executive director at T Mobile d.o.o. In 2005 he was appointed Management Board member for Allianz Zagreb d.d. In 2009 he becomes HT Management Board member for Bosnia and Herzegovina.

In 2008 he becomes Management Board member and Chief Financial Officer at Iskon Internet d.d. He graduated from international business school in Bled, Slovenia and received his MBA. He attended numerous international professional seminars from the area of finance, controlling, project management and human resources development.

Jorn Pedersen

Management Board Member (from February 24, 2012)

He received his Master of Business Administration degree in 1985 for Strategic Planning, from the Copenhagen School of Business and Administration. His work experience includes more than 20 years in the international FMCG business with several leadership positions in many different countries, particularly emerging markets and emerging companies.In 1985 is employed as Section Head Far East for IFU (Semi Governmental Financing institution), working partly in Copenhagen, partly in South Korea, China and Philippines.

From 1989 to 2007 he find his positions at Carlsberg in Malawi, Turkey and the Balkan region, working as Business Assistant to Vice President, Business Controller, Sales and Marketing Director, Regional Manager, Deputy Managing Director at Panonska pivovara d.o.o. in Croatia, Department Manager, Business Development Manager, Business Development Director and Managing Director. In 2008 he transfers to Sarmat Group, Donetsk, Ukraine, where he is General Director. For a part of that year he also works as Management Consultant (Company doctor and interim Management in Croatia, Romania and Germany). In 2009 he is CEO for BornPoultry A/S, Bornholm Denmark (Premium branded chicken products). Before he was appointed Podravka Management Board Member in February 2012 he worked as Senior Vice President at Uhrenholt A/S and CEO Uhrenholt Russia & CIS (Food products to Food Service and Retail channels). He was until 2011 a Board Member in Gourmet Bornholm (an organisation of Gourmet Food Producers) and Board Member Confederation of Danish Industry.

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

BUSINESS RESULTS

Sales revenue of the Podravka Group amounted to HRK 3,625.2 million, which is 3% higher compared to the same period of the year 2010.

Sales of the SBA Food and Beverages totalled HRK 2,828.9 million, which represents a sales increase of 2% compared to the year 2010. This increase results from a higher level of sales on foreign markets (4%) and the foreign market with the highest increase of the SBA Food and Beverages is the market of South-East Europe (7%) with the highest contribution coming from the markets of Serbia (16%), Bosnia and Herzegovina (6%) and Slovenia (4%). The markets of Western Europe, overseas countries and the Orient also achieved an increase in the sales of the SBA Food and Beverages (2%) with a significant growth from the market of Australia (15%), while the markets of Central Europe achieved a sales increase of the aforesaid SBA by 1% with the highest contribution from the market of the Czech Republic (9%).

The SBA Pharmaceuticals achieved sales in the amount of HRK 796.3 million, which represents a sales increase of 7% compared to the same period of the year 2010. The sales increase of the SBA Pharmaceuticals is mostly contributed by foreign markets which recorded a growth of 13%, with the highest contribution coming from the markets of Russia (22%), Bosnia and Herzegovina (8%) and Slovenia (28%). Sales on the Croatian market have also increased (3%) due to a higher level of sales of prescription drugs (2%) and a growth of sales of OTC products (1%). According to the ATC[1] classification the product groups which have achieved the most significant growth are dermatic drugs (14%) and drugs with effect on the nervous system (9%).

Sales revenues per product groups

The BP Podravka Food achieved a sales increase of 7% compared to the same period of the year 2010, and growth was recorded by all the product groups within this business programme, with the most significant contribution from the product group Fruit and vegetable products, side dishes and other due to their sales increase in Croatia (7%) and Poland (34%). The product group Baby food, sweets and snack recorded a 3% growth with the highest contribution from the markets of Serbia (22%), Slovenia (6) and Bosnia and Herzegovina (5%). The increase of sales of the product group Fish and fishery products in the amount of 4% results from the sales growth on the market of Serbia (9%) and opening of the new market of Romania. Sales of the BP Dishes and Food Seasoning is 1% lower due to lower sales of the product group Food seasonings, although this product group recorded a growth of sales on some markets such as Austria, Australia, Serbia and the Czech Republic. The product group Podravka dishes achieved a sales increase of 3% due to the growth on foreign markets with the highest contribution coming from the markets of both Russia and Serbia.
The BP Meat recorded a 1% sales increase due to the sales growth on foreign markets (14%), among which the most prominent is the market of Bosnia and Herzegovina (41%), due to the sales growth of Liver paste. Apart from this, the markets of Kosovo, Italy and Australia also achieved a significant sales growth of this business programme.
The sales of the BP Beverages is lower by 11% compared to the year 2010, which is mostly contributed by the drop of sales on the domestic market (-13%) but also a lower level of sales on the foreign market where a drop of 4% was recorded.

Sales revenues of the Podravka Group per markets[2]

Sales in the amount of HRK 1,741.8 million, which is 48% of the total sales of the Podravka Group was realized on the market of Croatia. The domestic market achieved the same level of sales as the year before provided that the SBA Pharmaceuticals achieved a sales growth of 3%, while sales of the SBA Food and Beverages dropped 1%. Foreign markets recorded sales growth in the amount of HRK 1,883.4 million which represents a 6% increase. Strong sales growth was present on all foreign markets with the highest absolute sales growth realized on the markets of South-East Europe (8%) where the most prominent markets are Bosnia and Herzegovina (7%), Serbia (17%) and Slovenia (5%). The market of Eastern Europe also recorded a significant sales growth (11%) based on a higher level of sales on the market of Russia (17%). The market of Western Europe, overseas countries and the Orient achieved a sales growth of 3% with the highest contribution from the markets of Australia (15%) and Italy (33%), while the markets of Central Europe recorded a sales growth of 2% based on the increase of sales on the markets of the Czech Republic (8%) and Hungary (5%).

Structure of operating costs / expenses

The total operating costs/expenses of the Podravka Group amounted HRK 3,422.9 million, which represents an increase of 4% in the year 2011 compared to the year before due to a significant increase of Costs of goods sold, respectively the price of raw material. Marketing expenses grew 6% in the observed period as a result of higher expenses for trade and BTL marketing, primarily due to consumption incentives but also as a result of supporting new products on the market. General and administrative expenses recorded a 10% growth mostly influenced by research and development expenses and higher amortization, while Selling and distribution costs were 5% lower in the observed period.

1 Anatomic-therapeutic-chemical system of drug classification
2 South-East Europe – Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Slovenia, Serbia, Central Europe – Czech Republic, Hungary, Poland, Slovakia, Western Europe, overseas countries and the Orient – Austria, Australia, Benelux, France, Italy, Canada, Germany, USA, Scandinavia, Switzerland, Turkey, Great Britain and other overseas countries and Western European countries, Eastern Europe – Baltic countries, Romania, Russia, the Ukraine, Bulgaria and other Eastern European countries

Profitability of the Podravka Group

Although sales revenue in the year 2011 grew by 3%, respectively HRK 102.9 million, the gross profit recorded a drop of 1% and amounts to HRK 1,428.6 million. Namely, due to a powerful impact from the price increase of raw material, the Costs of sold goods grew much faster than sales revenue which is the main reason for a lower gross profit and drop of gross margin (-170bp). The EBITDA is HRK 415.5 million and is calculated in a manner to increase the EBIT for amortization and value adjustments of both tangible and intangible assets. The operating profit amounts to HRK 193.2 million, which represents a drop of 6% and therefore, the EBIT margin is a level of 5.3%. The net profit of the Podravka Group is HRK 69.3 million and the net margin is 1.9%.

Positive non-recurrent items for which the result has been corrected, arise from the return of insurance funds in the amount of HRK 23.7 million in the SBA Pharmaceuticals, recording of the SMS brand (HRK 7.8 million) and the release of reserves based on the contractual relationship with OTP Bank (HRK 19.1 million). Namely, Podravka d.d., OTP Bank Plc and MOL Hungarian Oil and Gas Company, Plc from Budapest concluded a Settlement Agreement by which all mutual claims and liabilities of the contractual parties have been discharged and as a result of this Podravka has achieved a positive effect on the result due to the release of earlier reserved funds in the year 2010.

Negative non-recurrent items referred to impaired values of long-term assets held for sale (HRK 16.6 million), loss from reduced values of brands and pharmacy rights (HRK 41 million), bond value adjustments (HRK 3.7 million), impairment of goodwill (HRK 7.1 million), value adjustments of fund investments (HRK 3.5 million) and severance payments (HRK 8.7 million).

A difference in the levels of EBITDA, EBIT and net profit occurred referring to the unaudited financial statements due to corrections and reduction of brand values, impairment of long-term assets held for sale and impairment of goodwill, respectively.

Namely, after the disclosure of unaudited financial statements, additional brand value reductions occurred in the amount of HRK 31.2 million (total reduction of brands Warzywko and Lero is HRK 40.3 million, while the reduction of pharmacy rights is HRK 0.7 million). Apart from that, value adjustments of goodwill in the amount of HRK 7.1 million and assets held for sale in the amount of HRK 16.6 million (HRK 14.5 million property in Lero and HRK 2.1 million property in Koprivnica) were made. The corrected EBITDA, EBIT and gross profit (reduced by non-recurrent items) have slightly changed compared to those earlier disclosed (EBITDA by -0.2%, EBIT by -0.4% and net profit by -2.6%).

Profitability of SBA Food & Beverages

Despite the sales increase of the SBA Food and Beverages of 2%, the gross profit in 2011 recorded a 5% drop due to the price increase of incoming raw material and changes in the sales structure. As a result, the gross margin recorded a drop of 250bp. The operating profit is HRK 54.7 million and is 49% lower than last year, while the net profit is 163% lower. Positive non-recurrent items in the SBA Food and Beverages referred to the release of reserves based on the contractual relationship with OTP Bank (HRK 19.1 million) and recording of the SMS brand (HRK 7.8 million), while negative non-recurrent items referred to severance payments (HRK 7.7 million), value adjustments of fund investments (HRK 3.5 million), impairment of goodwill (HRK 4.9 million), bond value adjustments (HRK 3.7 million), loss from brand value reduction (HRK 40.3 million) and the impairment of long-term assets held for sale (HRK 16.6 million). The EBITDA was corrected by HRK 12 million as the reported EBITDA was already corrected by the impairment of long-term assets held for sale and value adjustments of intangible assets. The EBIT was corrected for non-recurrent items in the amount of HRK 49.8 million, while the net profit was corrected by HRK 41.4 million, as deferred tax assets amounted to HRK 8.4 million.

Profitability of SBA Pharmaceuticals

Sales of the SBA Pharmaceuticals increased by 7% compared to the same period of the year before with the highest contribution from foreign markets (13%), but the domestic market also achieved a sales growth (3%). As more profitable products have recorded a growth within the structure of sales, the gross profit grew 8% so the gross margin for the observed period was 54.9%. The level of EBITDA, EBIT and net margin recorded positive shifts due to earlier mentioned positive non-recurrent items based on income from insurance in the amount of HRK 23.7 million, while the negative non-recurrent items amounted to HRK 4 million (HRK 1.1 million severance payments, HRK 2.2 million impairment of goodwill and HRK 0.7 million based on the reduction of pharmacy rights). The corrected EBITDA is reduced by HRK 22.6 million as pharmacy rights reduced in the amount of HRK 0.7 million and the loss from the impairment of goodwill (HRK 2.2 million) have already been included in the reported EBITDA. The corrected EBIT is reduced by HRK 19.7 million, while the level of corrected net profit is reduced by HRK 14.9 million as tax liabilities amounted to HRK 4.9 million based on the return of insurance and HRK 0.1 million of deferred tax assets.

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

The consolidated and audited financial statements of the Podravka Group for the period January – December 2011 have been prepared in compliance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRS) and provide an overall and true presentation of assets and liabilities, profit and loss, financial position and business operations of the Group and all related companies involved in the consolidation.

The audited financial statements of the Podravka Group significantly differ from the unaudited earlier disclosed statements due to an impairment of value of both tangible assets for sale and intangible assets (brands, goodwill).

Accounting Director:
Draga Celiščak

Board Member:
Miroslav Klepač

PODRAVKA GROUP EXPECTED DEVELOPMENT

Programs and markets to achieve growth

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

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

In Croatia, SouthEast and Central Europe the biggest contribution to growth is expected by launching of new products and subcategories within product groups: food seasonings, Podravka dishes, fish and fish products.

Significant contribution to growth is also expected in the markets where the full potential of Podravka's strongest brand Vegeta has not been completely exploited, markets of Eastern and Western Europe in particular.

Additional growth on overall level Podravka will try to achieve inorganically – by acquisitions and strategic alliances in the region of SouthEast, Central and Eastern Europe with the base goal of additional strengthening of its position in strategic programs in which it does business in the stated markets.

General strategic goals

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

Strategic guidelines

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

Human resources

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

Processes

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

Market

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

Finance

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

Key factors of success

1. Employees

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

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

2. Quality and image

Podravka has always been a synonym for high quality and supreme products – each product having the name Podravka is the result of many years of tradition, know-how and caring for the health and well-being of the consumer.
All the products and business processes are based on principles of quality management, and the satisfaction of clients and consumers is our main guideline. Podravka is obliged to satisfy the demands of clients and consumers and constantly improve the quality of products and business processes. Podravka is taking constant care on the sanitary validity and product safety, compliant to the legislature of the Republic of Croatia, European Union and all the countries with which it does business. Knowledge, expertise and constant care for employee education ensures innovated products and processes for the global market. The center of Podravka's activities is constant improvement of the management system.

3. Innovativeness

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

4. Trust and satisfaction of clients and consumers

Podravka is a food processing company focused on achieving the highest level of satisfaction of its clients and consumers. Existing and future clients and consumers are the most valuable external potential and they are therefore approached with special care in an open and responsible communication. Podravka regularly measures the fulfillment of their needs and expectations. Feedback is analysed with the purpose of increasing clients and consumers trust and satisfaction and constant improvement of products and production processes. Podravka builds confidence based on mutual respect of employees, as well as consumers and clients.

5. Power, growth and sustainable development

Food processing is Podravka's primary business. In the food industry Podravka wishes to be an innovative leader in its region, including SouthEast, Central and Eastern Europe. "We will be the best food processing industry, capable of fast reactions in changeable business environment." Other significant business activity is pharmaceutical business where recognizable partnership approach with selected therapeutic groups ensures growth and long term values for employees, users and society as a whole.

Significant presence on international market is one of Podravka's characteristics. International markets offer opportunities for fast growth. Considering Podravka's roots and origin, it enables is better understanding of consumer needs and specific local tastes. Culinary creativity and inclusion of consumers provides source of innovative solutions.

Growth is one of the basic aims of this company. Podravka's goal is a constant above average growth and development – annual two-figure growth. That way Podravka will have satisfied owners and will be attractive to future investors. Shareholder satisfaction is Podravka's key aim.

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

Trends in food and beverages industry

We are witnessing constant changes in our environment. In order for the companies to hold on to their consumers and continue to have successful business, they need to react in due time and keep track of the market trends. Everything that happens on social, geopolithical or financial aspects affects company business and plans. It is therefore a mission of any successful company to adapt its business according to the situation in the surrounding.

In the last couple of years several global trends much affected the changes in the macroeconomic environment of the business in the food industry:

- consolidation in trade and among manufacturers,
- import from developing countries, development of China and India,
- security, political and economic situation around the world.

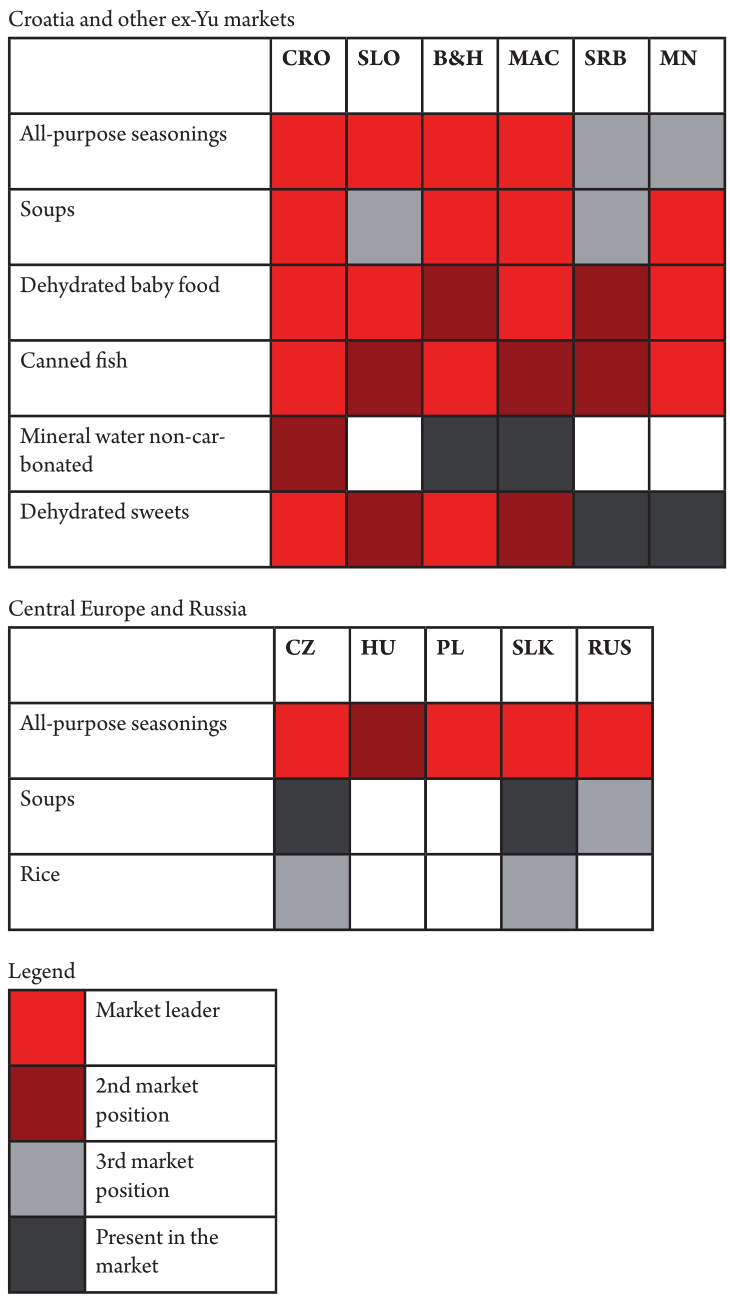
These trends have influenced the growth of inflation, economic growth rate and the proportion of how much households are spending on food and beverages, which is particularly applicable to the markets in which consumers are very price-sensitive.

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

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

In the last couple of years the consumers have been following the trend of active living, bringing the need to make the products healthy, available and that the consumers can select the kind of product that they like the most.
Increasing is the care for own health, so food industries follow the trends of organic products and raw materials, the offering of fresh fruit and vegetables, "natural" products with increased percentage of fruit and vegetables and increased trends related to development of products for strengthening the immune system and providing body with additional health benefit.
Emphasizing the need for individualism and caring for own well-being is a trend that has in the food industry been reflected through an increased influence of products that are "just for me" or "better for me" and the products focused on solving individual health issues.
Due to increased globalization and information availability, consumers have developed a trend of diverse – both domestic and foreign cuisine, enjoying different and autochthonous meals and beverages.

Market positions of food categories in 2011



Source: research panel (MEMRB, AC Nielsen)

RISK FACTORS

Business environment risk

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

Industrial risk

As a complex group with business in several economic branches, Podravka is faced with challenges present in the food and meat industry, beverages industry and pharmaceutical industry, both in the country and abroad.
Food and meat industry are faced with changes in the consumer and diet habits, changes in life style and all the greater development of consumer awareness on own diet habits. The stated changes place before the meat and food industry the challenge of continuous product range adjustment to the needs and demands of consumers, as well as adjustment to the advancement of quality of the existing products, which on the other hands requires innovation, investments in technological development, production processes and human resources. One also needs to consider duration and costs of registration of new products on domestic and foreign markets.
As a company that achieves large portion of its profit in foreign markets, Podravka is faced with strict criteria of quality control while exporting. But continuous growth of sales on foreign markets is a sign of successful compliance of quality criteria and standards of the countries into which we are exporting and where we have our production facilities. Including Croatia into regional and world economic and political organizations, accession to the European Union, opens up a range of possibilities for Podravka, but also places before it specific demands where food industry needs to adjust rapidly and is being exposed to a wider competition.
Considering the wide range of products divided into groups, i.e. segments, each segment is exposed to specific risks effecting the successfulness of business and financial results of Podravka.
Vegeta is Podravka's most important strategic product recognizable around the world. The significance of sales revenues from this product presents a potential risk for Podravka in case of drastic production reduction and/or sales drop on domestic/foreign market.
Business results achieved in beverages segment are significantly influenced by weather that greatly determines the level of water consumption and consumption of other non-alcoholic beverages. Therefore sale in this segment is subject to oscillations in years of bad weather.
Belupo pharmaceutical industry faces the risk of the pharmaceutical industry.
The most prominent problems in this segment are prices of pharmaceutical, changes in the list of the Croatian Health Institute, problems of collecting due payments from variety store suppliers, facing reforms of the health system, reduction of profit margins and ecological risk, i.e. the problem of waste management and old medicines management.
To be more successful in facing these risks, Podravka devotes special attention to tracking world trends in food industry and is trying to keep up with the latest technological achievements, offering to the market innovated and new products which are taking a growing share in the newly acquired value.

Competition risk

Importance of the food industry, food and beverages production sector, is also emphasized by the information on high share of this sector in the total industrial production. Food and beverages production traditionally takes the highest share in the total processing industry. Food industry is featured by constant and growing demand which is among other a consequence of life standard growth and eating habits change, causing also a powerful competition within the sector.
The potential and achieved growth rates in the food and beverages industry have largely affected the increase of competition in this sector. Besides, the present globalization process, political stability, development and liberalization of the markets, as well as the increase in living standards have greatly affected the removal of market boundaries and increase in the competition degree in the food industry. Additional effect of domestic companies being exposed to competition from large food processing companies derives from accessing the European Union. Also, candidate countries aligning their legislature with acquis communautaire, and the countries included in the stabilization and accession process, gradually remove the obstacles in accession of these markets to the inner market of the European Union and place new standards and norms. The result of the stated processes is a high exposure of local food processing companies to the global competition, creating simultaneously new business opportunities for local companies by fast opening of foreign markets. On the other hand, accession to the European Union and opening foreign markets to domestic companies such as Podravka, which already has a significant presence in foreign markets, opens the possibilities of further development, new business opportunities, strengthening market positions in the markets in the region. Also, to emphasize, food processing industry is also determined by local consumer and eating habits and needs, so domestic food processing companies, such as Podravka, that continuously works on advancing the quality of its products and extension of its range, they manage not only to maintain, but also to strengthen its business and market position in the domestic market. As a company with a defined development and investment strategy, Podravka has the strengths needed to successfully adapt to competition demands of the domestic and foreign market.

Risk of trade

During the previous years various multinational chain stores have entered the Croatian market. This also means increased concentration of products by foreign producers in domestic market. Besides, many domestic food processing companies have their own chains, i.e. distribution and sales capacities.
For the products of domestic food processing companies to find their place in the commercial chains and stores, a clear and recognizable marketing strategy and continuous strengthening of product brands in order to intensify the demand for products and thus strengthen the negotiating power of the food industry toward trade. Since the development of the distribution segment is headed in the direction of transferring the key role to the consumer, trading companies that need to take into consideration the comments from end-consumers. This creates a space for companies such as Podravka, to win a fair position in the commercial chains due to their fine marketing campaign.
Podravka has developed partnership relations in commercial chains and together with them works on recognizing changes in consumer demands and preparing their products to satisfy those demands.

Business risk

Corporations are daily exposed to business risk that includes the risk of bad business and reduction of company stability. Bad business decisions, bad financial results of an individual segment, non-efficient cost control and similar increase the business risk and can result in instability of company business.
Podravka systematically uses certain indicators to track business risk. Any significant deviation of liquidity indicators, profitability and indebtedness from their normal values presents the signal of increased business risk, requesting appropriate measures to be taken to ensure stability in company's business.
Activities that Podravka performs in its business are exposed to various financial risks, including the effect of market prices change, changes in exchange rates and interest rates.
A potential risk of Podravka's business is in the fact that Podravka Group does business in various countries with various currencies as legal payment means. Compliant to valid accounting policies in Croatia and International Accounting Standard no. 21, Podravka needs to reevaluate the total monetary positions of its branch offices outside Croatia, where the reporting currency is other than Kuna, into own reporting currency, i.e. Croatian Kuna. Due to the stated exposure to Kuna-Euro exchange rate movement (a large portion of Podravka's financial commitments has a currency clause in Eur) and the minority depends on Kuna-US Dollar movement, Podravka's business results can in certain degree be influenced by changes in the stated currencies.
Managing the solvency risk implies maintaining sufficient funds and turn capital and ensuring the availability of financial means in the form of credits.
Financial assets that could potentially lead Podravka Group into a credit risk includes mostly cash, claims from buyers and credits given. Podravka Group keeps its cash in large banks, therefore the risk is negligible. Claims from buyers are shown reduced for reservations for suspicious and disputable claims. Podravka Group revenues and cash flow from its business activities depend on changes of interest rates on the market. Most of the loans i shown in relation to variable interest rates related to EURIBOR, LIBOR, PRIBOR and ZIBOR.

Risk of management and staffing

Podravka's today's business results are based on experienced and expert workers in this company. Current expert, experienced and motivated management on all levels affects company results. Special attention is paid to educating employees, which is of great significance for Podravka's development. Key managers and experts leaving the company hypothetically might have a negative effect on results. Podravka continuously invests in employees development in order to be able to fill key positions with its own resources.

Ecologic risk

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

SUSTAINABLE DEVELOPMENT

Podravka Group works in compliance to norms and demands of socially responsible business, i.e. in compliance with the business principles of sustainable development. Guided by the stated principles, through all of its activities Podravka Group promotes and encourages the application of norms and demands proposed by socially responsible business as well as compliance of economy with developmental goals of the community, and preservation of the environment.

Company is recognizable for its production of food products and medicines which are of a standard quality, safety and efficiency. We are continuously working on innovating the quality and declarations of our products, compliant to regulations on our markets. Like other successful and reputable world companies, continuous goal of Podravka Group, apart from profit, is to continuously contribute to the advancement of society and life of the citizens. In all the environments where the company operates, it has proved to be a desirable social partner that takes care of the community.

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

Podravka Group's mission is to do business in the interest of clients and consumers and within Croatian Business Council for Sustainable Development (HRPSOR) specific activities are taking place which influence the existing legislature, exchange of good business practices and encouragement of HR PSOR members to actions with the goal of improving the standards of the social community.

The very technological process and the way it is organized we make a direct impact on usage of energy and water, waste water release, air emissions and creation and waste management. Where ever it is possible in business processes, the principles of "clean production" apply.

Reduction of energy consumption measures which are continuously being applied directly influence cost prices per unit of product, reducing at the same time the greenhouse gasses emissions, contributing thus to environment protection.

We treat potable water as one of the most precious natural resources. In the business processes the idea of water recirculation has been implemented where ever that was possible. Water for energy purposes is prepared at own production facilities, and its release is strictly controlled and is subject to neutralization. Continuous trend of water usage is clearly visible, which also means reduced expenses. At the same time waste water release into the environment is also reduced.

Waste water is being released in the public sewage where the parameters and Rulebook allow for it, and Danica industrial zone has successfully implemented a water treatment device.

Allowed emissions are under constant supervision of expert services and authorised government institutions, and in that sense the company completely fulfills all obligations proscribed by law and rulebooks on allowed concentrations of emissions. Substances that damage the ozone layer are completely removed from use.

Sorting of waste and its separate collecting represent two key demands in waste management. Responsible separation of waste at the points of its origin continuously reduces the amounts of municipal waste, simultaneously increasing the amounts of sorted waste which is appropriately disposed through recycling or used in other production facilities (as secondary raw material) outside Podravka Group or as a source of thermal energy. Experts of Podravka Group pay much attention to organized and systematic return and provision of waste packaging according to types and proscribed standards.

Workers have been regularly informed about all activities through corporate Intranet site, two-weekly newsletter "Podravka" and monthly newsletter of Belupo "Glasilo". Apart from these channels of reporting about the activities in the company, in 2011 the workers have been given the opportunity to participate and get information at workers gatherings where the Management Board and the executive management inform the workers on business results, all key events and company plans for the upcoming periods.

ENVIRONMENT

In its business Podravka Group is committed to sustainable development and it pays special attention to environment protection. For its efforts in the area of sustainable development the company received a Charter by HRPSOR. Company's efforts are evident in the existing production activities, development of new products and technologies, building of new facilities, raw materials and energy sources consumption, collecting and recycling waste and environment emissions.

Podravka Group fundamental goals regarding environment protection are:

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

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

Products development process is based on improving industrial processes, developing new products and advancement of the existing ones that keep track the latest trends in the area of food and satisfying the demands, wishes and needs of our consumers. Developing new, quality products that satisfy the needs of an organism for energy and nutrients, and regular declaration for those products Podravka influences forming regular dietary habits of the consumers.

Sensoring and nutritionism department performs internal and external tests of the consumers as requested by different development and marketing departments with the purpose to develop products that with its organoleptic quality should satisfy the groups of consumers to whom they are intended. Parallel with that daily activities are performed to advance the existing products compliant to the latest trends in technology and raw materials.

Using raw materials that have a beneficial effect on human organism and the development focused on functional products we care for the health of our consumers. Closely cooperating with the consumers we try to adapt and optimize raw materials in order to get finished products that are of more quality and appropriateness.

Optimizing production processes we try to develop products that have a direct or indirect effect on savings of material, energy and water, reducing thus the cost of resources in production. When developing products we also respect the following principles:

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

Internal rulebooks for all production divisions have also been revised and put in function, relating to:
- operating plan in saving and protection,
- environment protection intervention plan,
- waste management plan,
- rulebook on waste water treatment devices operation,
- operating plan of intervention actions upon sudden water pollution,
- rulebook on procedures and provision of all wastes from the technological processes and sludge from the process of waste water treatment and dealing with hazardous materials.

SOCIAL COMMUNITY

Owing to the values saturated through the company culture, socially responsible behaviour is a constituent part of Podravka Group's identity and business activities.

From its very beginnings the company has been aware of its influence and responsibility towards the social community into which it is deeply rooted. Implementing concrete projects, for more than half a century Podravka contributes to development and raises the standards of living of its employees, but also of the wide social community. Engaging own potentials the company activates connections and exchange of knowledge, experiences and information, creates and stimulates initiatives and projects with the purpose of sustainable economic development, improving the quality of living and environment protection.

Podravka's engagement into satisfying the needs of the social community in which it operates is portrayed through three key areas:
- healthy living,
- concern for the social community in which we operate,
- continuous education of the employees and encouraging excellence and creativity in education and science.

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

INITIATIVES

Podravka's actions includes linking and permeating the activities on international, national and local level.

Some of the renowned organizations and bodies in which the company participates are:

- international: Global Compact (GC), European Foundation for Quality Management (EFQM),
- national: Croatian Chamber of Economy (HGK), Croatian Employers Association (HUP), National Competitiveness Council (NVK), Croatian Business Council for Sustainable Development (HR PSOR), Economic interest association for packaging and environment protection (GIU PAK), Eko-Ozra (packaging and packaging waste),
- local: The City of Koprivnica and Koprivnica-Križevci county.

Initiatives related to stimulating innovativeness and competitiveness through exchange of knowledge (institutes and faculties, EU funds) or to encourage entrepreneurship and knowledge exchange in the projects of local (Local Agenda 21; European Mobility Week), regional (Regional operative plans for the development of the County) and general national interest (Croatian Academy of Science and Art; work groups for preparing negotiations of Croatian accession to European Union).

CORPORATE GOVERNANCE

STATEMENT ON CORPORATE GOVERNANCE

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

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

Key principles that Podravka d.d. takes into account are:
- rights and obligations of the shareholders,
- equal treatment of all shareholders,
- obligations and responsibilities of the Management and Supervisory Boards of Podravka d.d.
- reporting and transparency.

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

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

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

Subsidiaries of Podravka d.d.

Name of subsidiary	Country	Company share in ownership and voting rights (%)		Principal activity
		2011	**2010**	
Subsidiaries in Croatia				
Belupo d.d., Koprivnica	Croatia	100,00	100,00	Production and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	100,00	100,00	Meat production and processing
Lero d.o.o., Rijeka	Croatia	100,00	100,00	Fruit and vegetable juices and beverages production
Ital-Ice d.o.o., Poreč	Croatia	100,00	100,00	Ice-cream production
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100,00	100,00	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100,00	100,00	Purchase and sales of goods, meal preparation and catering services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100,00	100,00	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100,00	100,00	Sales of goods
Subsidiaries abroad				
Lagris a.s., Lhota u Luhačovic	Czech Republic	100,00	100,00	Rice production and sales
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100,00	100,00	Seasonings production and sales
Podravka-International Kft, Budapest	Hungary	100,00	100,00	Sales and distribution
Podravka d.o.o., Ljubljana	Slovenia	100,00	100,00	Sales and distribution
Podravka d.o.o., Beograd	Serbia	100,00	100,00	Sales and distribution
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100,00	100,00	Sales and distribution
Podravka-International s.r.o., Zvolen	Slovakia	75,00	75,00	Sales and distribution
Podravka d.o.o., Podgorica	Montenegro	100,00	100,00	Sales and distribution
Podravka International, Turska	Turkey	75,00	75,00	Sales and distribution
Podravka-International Pty Ltd, Sydney	Austria	98,88	98,88	Sales and distribution
Sana d.o.o., Hoče	Slovenia	100,00	100,00	Wafers production
Podravka-International s.r.l., Bucharest	Romania	100,00	100,00	Sales and distribution
Podravka d.o.o., Skopje	Macedonia	100,00	100,00	Sales and distribution
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100,00	100,00	Sales and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100,00	100,00	Sales and distribution
Podravka-International Inc. Wilmington	USA	100,00	100,00	Sales and distribution

GENERAL ASSEMBLY

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

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

General Assembly of Podravka d.d. held on 25 March 2010 passed a resolution on electing the president and deputy president to the General Assembly for the four year period, where Hrvoje Matić was elected president to the General Assembly, and its deputy president Ivan Mesić.

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

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

SUPERVISORY BOARD

Supervisory Board has nine members, six of which are elected by the shareholders at the General Assembly by the three-quarter majority of all votes given. Two members of the Supervisory Board are named by the State Property Management Agency (AUDIO), while one member is named by the Worker's Council as stipulated by the provisions of the Labour Law. Members of the Supervisory Board shall be appointed for a four-year term of office. The term of office of each member of the Supervisory Board begins to run as of their election and appointment, respectively. Supervisory Board supervises business operations of the Group, and on issues in their domain Supervisory Board makes decisions based on the Rules of Procedure of the Supervisory Board.

Supervisory Board members of Podravka d.d. in 2011

Ljubo Jurčić	president (until 24 February 2012)
Ksenija Horvat	deputy president (recalled by the Workers Council on 8 April 2011)
Martinka Marđetko-Vuković	member (appointed by the Workers Council on 8 April 2011)
Dubravko Štimac	member (until 24 February 2012); president (from 24 February 2012)
Dinko Novoselec	member
Petar Vlaić	member
Petar Miladin	member
Karmen Antolić	member
Miljenko Javorović	member (until 24 February 2012)
Nikola Gregur	member
Mato Crkvenac	deputy president (from 24 February 2012)
Ivo Družić	member (from 24 February 2012)

At the session held on 23 October 2009, Supervisory Board reached a resolution on appointing the Audit Committee, with the following members:

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

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

Audit Committee is authorised to monitor the course of financial reporting, to track the efficiency of internal control system, internal audit and risks management system, supervise the audit of annual financial and consolidated statements, track independence of independent auditors or auditing companies that perform the audit, especially contracts with added services, discuss plans and annual report issued by the internal audit, as well as significant issues related to this area, provide recommendations to the General Assembly on election of the independent auditor or auditing company, communicate with the public on bonus payments, severance payments and share options, suggest to the Supervisory Board amendments in contracts of Management Board members, provide interpretations and opinions for all the provisions contained in the Management Board members contracts.
Audit Committee held two sessions in 2011.

Supervisory Board members are entitled to a fixed monthly remuneration as decided at the General Assembly on remunerations for Supervisory Board members. In 2011 Podravka d.d. Supervisory Board members have been paid HRK 1,568,047, and if this amount is added with the remunerations to members of the Supervisory Boards of Belupo d.d. and Danica d.o.o., Supervisory Board members of Podravka Group have been paid HRK 1,691,380.

MANAGEMENT BOARD

At its session held on 31 May 2010 the Supervisory Board reached a resolution on appointing Podravka d.d. Management Board president and members. Miroslav Vitković was elected president and Krunoslav Bešvir, Lidija Kljajić, Marin Pucar and Miroslav Repić were elected Management Board members. The term of Podravka d.d. Management Board president and members is 5 (five) years and it started as of the day this resolution was passed.

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

Management Board members in 2011

Miroslav Vitković	president (until 24 February 2012)
Lidija Kljajić	member (until 24 February 2012)
Marin Pucar	member (until 24 February 2012)
Krunoslav Bešvir	member (until 24 February 2012)
Miroslav Repić	member (until 24 February 2012)
Zvonimir Mršić	president (from 24 February 2012)
Jadranka Ivanković	member (from 24 February 2012)
Olivija Jakupec	member (from 24 February 2012)
Miroslav Klepač	member (from 24 February 2012)
Jorn Pedersen	member (from 24 February 2012)

Salary to an individual Podravka d.d. Management Board member has been determined by a management contract signed between an individual Management Board member and the Company. Gross salaries paid in 2011 to Podravka d.d. Management Board members amount to HRK 4,755,753, and if this amount is added with remunerations for Management Board members for Belupo d.d., Podravka Group Management Board members have been paid gross salaries of HRK 7,390,407.

CORPORATE GOVERNANCE CODE

ANNUAL QUESTIONNAIRE

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

Company name PODRAVKA food industry d.d.

1. Does the company have its website?

	YES/NO	EXPLANATION
if so, what is its address?	YES	www.podravka.com
if not, why?		

2. Are the semi-annual, annual and quarterly reports available to the shareholders?

at the headquarters and business address of the company (If not, why?)	YES	
on the website of the company (If not, why?)	YES	http://www.podravka.com/investors/financial-reports
in the English language (If not, why?)	YES	http://www.podravka.com/investors/financi-al-reports

3. Has the company prepared the calendar of important events? (If not, why?) If so,	YES	
has the calendar of important events been published on the website of the company? (If not, why?), (ako ne, zašto?)	YES	http://www.podravka.com/investors/corporate-action-calendar
is the calendar of important events properly and timely updated? (if not, why?)	YES	

4. Is the company in a cross-shareholding relationship with another company or other companies?	NO	
which companies are those?		
are the data on cross-shareholding publicly announced and how? (If not, why?)		

5. Does the company publish in its annual report data on financial instruments issued by the company and owned by members of the Supervisory or Management Board or the management of the company? (If not, why?)	YES	Information on the total number of securities owned by the Supervisory Board and the Management Board of the Company on 31st December 2011 are published in the Company's Annual Report for the year 2011.
6. Does the company publish on its website data on financial instruments issued by the company and owned by members of the Supervisory or Management Board or the management of the company, and are those data regularly updated (within 24 hours)? (If not, why?)	YES	Information on the total number of securities owned by the Supervisory Board and the Management Board members on 31st December 2011 are published in the Company's Annual Report for the year 2010. Upon receiving a notification from any individual member of the Supervisory Board or the Management Board that there have been changes in the number of securities owned by them, the Company informs the Zagreb Stock Exchange and the Croatian Financial Services Supervisory Agency.

7. Does the company determine and publicly announce risk factors? (If not, why?)	YES	
8. Has the company established mechanisms to ensure:		
that persons who have access to or possess inside information understand the nature and importance of such information and limitations related to it? (If not, why?)	YES	
supervision of the flow of inside information and possible abuse thereof (If not, why?)	YES	
9. Does each share of the company have one voting right? If not,	YES	
have all relevant data on non-voting shares been made public on time? (If not, why?)		
how were these data published?		
10. Have the lists of all candidates for members of the Supervisory or Management Board elected or appointed at the assembly, including their CVs, been published on the website of the company? (If not, why?)	NO	Nominations without CVs are published on Company web site along with the invitation for the General Assembly. Upon the election, i.e. nomination of the candidates in the Supervisory Board, their CVs are published on Company web site.
11. Does the company treat all shareholders equally? (If not, why?)	YES	
12. Has the company issued any new shares? If so,	NO	
Were all shareholders allowed to participate in the increase in the initial capital of the company in proportion to their shares in the earlier initial capital, in the form of transferable financial instruments containing the pre-emption right, in order to protect interests of the shareholders who at the time of issue cannot subscribe and buy new shares? (If not, why?)		
Was the intention to issue new shares published at least 10 days prior to the day set as the date for defining the status in the register of shares, which will be relevant for determining which shareholders are entitled to pre-emption right while acquiring newly issued shares? (If not, why?)		
13. Has the company acquired or disposed of any own (treasury) shares? If so, was the acquisition or disposal made	NO	
on an open market? (If not, why?)		
in the manner not favouring any shareholder or investor or group of shareholders or investors? (If not, why?)		
14. Has the procedure for issuing power of attorney for voting at the general assembly been fully simplified and free of any strict formal requirements? (If not, why?)	YES	

15. Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, why?)	YES	
16. Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, why?)	YES	
17. Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, why?)	NO	In 2011 the Company did not pay any dividends.
18. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, why?)	NO	In 2011 the Company did not pay any dividends.
19. Was the decision on dividend payment or advance dividend payment defining the above-mentioned dates published and submitted to the Stock Exchange not later than within two days after it had been made?	NO	
20. Were any shareholders favoured while receiving their dividends or advance dividends? (If so, why?)	NO	In 2011 the Company did not pay any dividends.
21. Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
22. Were the agenda of the assembly and all relevant data and documentation published on the website of the company in English as well? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
23. Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, why?)	YES	Registration of participants in advance as a condition of participating at the General Assembly is stipulated due to a large number of small shareholders, with the intention of maintaining order and regularity of the session being held.
24. Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, why?)	YES	
25. Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, why?)	NO	There are no preconditions for such participation of shareholders at the General Assembly.

26. Did the management of the company publish the decisions of the general assembly of the company, as well as the data on legal actions, if any, challenging those decisions? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
27. Has the Supervisory or Management Board adopted a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, why?)	YES	
28. Has the Supervisory or Management Board passed its internal code of conduct? (If not, why?)	YES	
29. Please provide the names of the Supervisory Board and Management Board members.		Ljubo Jurčić (president of Supervisory Board), Ksenija Horvat (recalled on 08 April 2011), Martinka Marđetko-Vuković (elected on 08 April 2011), Karmen Antolić, Dubravko Štimac, Dinko Novoselec, Petar Vlaić, Miljenko Javorović, Nikola Gregur, Petar Miladin.
30. Please provide information on other companies whose members of the Supervisory or Management Board or management are also members of the Supervisory Board of the company. Also, provide information on whether some of those companies are considered as the company's competition.		There is no obligation of submitting requested information.
31. Is the Supervisory Board composed of, i.e. are non-executive directors of the Management Board mostly independent members? (If not, why?)	YES	
32. Which members of the Supervisory Board and which non-executive directors of the Management Board are independent?		Karmen Antolić, Petar Miladin, Dinko Novoselec, Dubravko Štimac and Petar Vlaić
33. Is there a long-term succession plan in the company? (If not, why?)	YES	
34. . Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, why?)	NO	The remuneration is fixed and in no part does it depend on efficiency of Company's business.
35. Is the remuneration to the members of the Supervisory or Management Board:		
determined by a decision of the general assembly	YES	
stipulated in the articles of association of the company		
determined in some other way (if so, in which way?)		
36. Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public? (If not, why?) (If so, where?)	NO	

37. Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company's shares, not later than on the next business day after such a change occurs (If not, why?)	YES	
38. Please provide information on all transactions involving both members of the Management or Supervisory Board or persons related to them, and the company or persons related to it.		There were no such activities.
39. Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it:		
concluded based on the current market situation (especially with regard to time limits, interest, guarantees etc.)? (If not, why and which transactions were those?)	NO	There were no such activities.
clearly presented in reports of the company (If not, why and which transactions were those?)	NO	There were no such activities.
confirmed by an independent estimate of experts independent as regards the participants in the said transaction? (If not, why and which transactions were those?)	NO	There were no such activities.
40. Are there any contracts or agreements between members of the Supervisory or Management Board and the company? If so,	NO	
did they obtain prior approval of the Supervisory or Management Board? (If not, why?)	NO	There is no such contract or agreement.
are important elements of all such contracts or agreements included in the annual report? (If not, why?)	NO	There is no such contract or agreement.
41. Have the Supervisory or Management Board established the appointment committee? (If not, why?) If so,	NO	Entire Supervisory Board has performed the function of the appointment comittee.
has the committee evaluated the structure, size, membership and quality of work of the Supervisory Board and the management, and prepared appropriate recommendations for the Supervisory Board? (If not, why?)	NO	Entire Supervisory Board has performed the function of the appointment comittee.
has the committee evaluated the knowledge, skills and experience of each member of the Supervisory Board and informed the Supervisory Board thereof? (If not, why?)	NO	Entire Supervisory Board has performed the function of the appointment comittee.
has the committee analysed problems related to the planning of work continuity of the Supervisory Board and the management? (If not, why?)	NO	Entire Supervisory Board has performed the function of the appointment comittee.
has the committee analysed the policy of the management on the employment of senior management? (If not, why?)	NO	Entire Supervisory Board has performed the function of the appointment comittee.
42. Have the Supervisory or Management Board established the remuneration committee? If so,	NO	
has the majority of the committee members been selected from the group of independent members of the Supervisory Board? (If not, why?)	NO	Entire Supervisory Board has performed the function of the remuneration comittee.

has the committee proposed to the Supervisory Board the remuneration policy for the management, which shall include all types of remuneration, especially its fixed part, variable part dependent on business results, pension scheme and severance pay? (If not, why?)	NO	Entire Supervisory Board has performed the function of the remuneration comittee.
in the case of variable part of remuneration dependent on business results, did the proposal of the committee include recommendations for determining impartial criteria for assessing efficiency? (If not, why?)	NO	Entire Supervisory Board has performed the function of the remuneration comittee.
has the committee proposed to the Supervisory Board the amount of remuneration for each member of the management, in compliance with the company's remuneration policy and evaluation of business performance of each member of the management? (If not, why?)	NO	Entire Supervisory Board has performed the function of the remuneration comittee.
has the committee proposed to the Supervisory Board the appropriate form and content of contracts with the members of the management? (If not, why?)	NO	Entire Supervisory Board has performed the function of the remuneration comittee.
has the committee monitored the amount and structure of remuneration to senior management and made general recommendations to the management thereon? (If not, why?)	NO	Entire Supervisory Board has performed the function of the remuneration comittee.
as regards the part of the remuneration to the management representing stimulus, in the case where it consists of stock options or other arrangements based on share acquisition, has the commission analysed the general policy on such type of remuneration and proposed to the Supervisory Board appropriate solutions, as well as analysed information published thereon in the annual report, prior to the publication?	NO	
43. Have the Supervisory or Management Board established the audit committee? (If not, why?) If so,	YES	
has the majority of the committee members been selected from the group of independent members of the Supervisory Board? (If not, why?)	YES	
has the committee monitored the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, why?)	YES	
has the committee assessed the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, why?)	YES	
has the committee worked at ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, why?)	YES	
if there is no internal audit system in the company, has the committee considered the need to establish it? (If not, why?)	NO	Internal audit function exists.

has the committee made recommendations to the Supervisory Board on the selection, appointment, reappointment and replacement of the external auditor, and on terms and conditions of his/her employment? (If not, why?)	YES	
has the committee monitored the independence and impartiality of the external auditor, especially with regard to the rotation of authorised auditors within the audit company and the fees the company is paying for services provided by external auditors? (If not, why?)	YES	
has the committee monitored the nature and quantity of services other than audit, received by the company from the audit company or from persons related to it? (If not, why?)	NO	There were no such services or activities.
has the committee prepared rules defining which services may not be provided to the company by the external audit company and persons related to it, which services may be provided only with, and which without prior consent of the committee? (If not, why?).	NO	There was no need for such services.
has the committee analysed the efficiency of the external audit and actions taken by the senior management with regard to recommendations made by the external auditor? (If not, why?)	YES	
has the committee examined the circumstances related to the dismissal of the external auditor, and made adequate recommendations to the Supervisory Board? (in a case of such dismissal)? (If not, why?)	NO	There was no such dismissal.
Does the committee maintain open and unlimited communication with the Supervisory Board and the management? (If not, why?)	YES	
Who is the committee accountable to for its work?		To the Supervisory Bord.
Does the committee maintain open and unlimited communication with the internal and external auditor? (If not, why?)	YES	
Does the management submit to the audit committee:		
timely and periodic presentations of financial statements and related documents prior to their publication (If not, why?)	YES	
data on changes in accounting principles and criteria (If not, why?)	YES	
accounting procedures accepted for the majority of operations (If not, why?)	YES	
data on all major differences between the book and real value by items (If not, why?)	YES	

all the correspondence with the internal audit department or independent auditors (If not, why?)	YES	
Has the management informed the audit committee of the methods used for booking significant and unusual transactions and business events in cases when booking of such events may done in different ways? (If not, why?)	YES	
Has the audit committee discussed with the independent auditor issues related to:		
changes in or adherence to current principles and criteria (If not, why?)	YES	
application of regulations (If not, why?)	YES	
application of regulations (If not, why?)	YES	
methods of risk assessment and results (If not, why?)	YES	
high risky areas of business operations (If not, why?)	NO	There was no high risky areas of business operations.
major deficiencies and significant shortcomings in the internal audit system (If not, why?)	NO	No larger deficiencies were noticed.
effects of external factors (economic, legal and industrial) on financial statements and audit procedures (If not, why?)	YES	
has the audit committee ensured the submission of high quality information by dependent and associated companies, as well as by third parties (such as expert advisors)? (If not, why?)	YES	
44. Has the documentation relevant for the work of the Supervisory Board been submitted on time to all members? (If not, why?)	YES	
45. Do Supervisory Board or Management Board meeting minutes contain all adopted decisions, accompanied by data on voting results, along with information on votes of each individual member? (If not, why?)	YES	

46. Have the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?	NO	
47. Please provide the names of the members of the Management Board or executive directors.		Miroslav Vitković (president of the Management Board), Lidija Kljajić, Marin Pucar, Krunoslav Beširvir, Miroslav Repić.

48. Have rules been established for the work of the management or executive directors, covering the following issues:

scope of activities and objectives,	YES	
rules of procedure,	YES	
rules of solving conflicts of interest,	NO	Conflict of interest was defined by management contracts.
management secretariat ,	YES	
manner of convening meetings, adopting decisions, agenda, taking minutes and delivering documents,	YES	
cooperation with the Supervisory Board.	YES	

(If not, why?)

49. Has the company published a statement on the remuneration policy for the management, Management Board and the Supervisory Board as part of the annual report? (If not, why?)	NO	There is no obligation of submitting requested information.

50. In the case where remuneration policy has been defined, does it include the following parts:

significant changes in comparison with the remuneration policy in the past year (If not, why?)	NO	There is no obligation of making such policy.
explanation of the relative share and of the importance of fixed and variable components of remuneration (If not, why?)	NO	There is no obligation of making such policy.
sufficient information on efficiency criteria, the fulfilment of which the right to acquire stock options, shares or other form of variable part of remuneration is based on (If not, why?)	NO	There is no obligation of making such policy.
sufficient information on the connection between the amount of remuneration and efficiency (If not, why?)	NO	There is no obligation of making such policy.
basic indicators and reasons for payments of annual bonuses or benefits which are not cash (If not, why?)	NO	There is no obligation of making such policy.

abbreviated overview of contracts with management members, which shall include data on contract duration, notice periods and especially severance pays. Every type of remuneration for members of the management and the Supervisory Board which consists of stock options or other rights to acquire shares, or if remuneration is based on the price of company shares, shall be approved by the general assembly of the company prior to becoming effective. This approval relates to remuneration principles and not to the approval of remuneration for individual members of the management or the Supervisory Board. (If not, why?)	NO	There is no obligation of making such policy.

51. Is the statement on the remuneration policy for the management or executive directors permanently available on the website of the company? (If not, why?)	NO	There is no obligation of submitting requested information.

52. Have detailed data on all earnings and remunerations received by each member of the management or each executive director from the company been published in the annual report of the company? (If not, why?)	NO	There is no obligation of submitting requested information.

53. Have all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, been made public, broken down by items and persons, in the annual report of the company? (If not, why?)	NO	There is no obligation of submitting requested information.

54. Does the statement on remunerations to the members of the management or Management Board include the following data on each member who exercised that function in the year which the statement relates to:

total amount of the salary payment, irrespective of whether it has already been paid or not (If not, why?)	NO	There is no obligation of making such statement.
remuneration or benefits received from associated companies (If not why?)	NO	There is no obligation of making such statement.
remuneration in the from of participation in profit or bonuses and the reasons for its payment (If not, why?)	NO	There is no obligation of making such statement.
any other additional remuneration paid to the members of the management for activities they conducted for the company outside the usual scope of duties of a management member (If not, why?)	NO	There is no obligation of making such statement.
compensation that was or should be paid to a former member of the management due to cessation of exercise of his/her duties during the year which the statement relates to (If not, why?)	NO	There is no obligation of making such statement.
total estimated value of non-cash benefits considered as remuneration, but not listed in the items above (If not, why?)	NO	There is no obligation of making such statement.
as regards the remuneration in shares or stock options or other forms of remuneration based on acquisition of shares:	NO	There is no obligation of making such statement.
the number of options or shares approved by the company in the year which the statement relates to and terms and conditions for their disposal (If not, why?)	NO	There is no obligation of making such statement.

the number of options exercised in the year which the statement relates to, and for each of them, the number of shares and the price it was exercised at, or the value of shares distributed to the members of the management at the year-end (If not, why?)	NO	There is no obligation of making such statement.
the number of options not exercised at the end of the year, the price they can be exercised at, the exercise date and the main conditions relating to the exercise (If not, why?)	NO	There is no obligation of making such statement.
each change related to the change in conditions of exercise of the existing options which occurred in the company in the year which the statement relates to (If not, why?)	NO	There is no obligation of making such statement.
each loan (including the debt balance and the interest rate), advance payment or a guarantee paid to members of the management by the company and its associated companies included in consolidated financial statements (If not, why?)	NO	There is no obligation of making such statement.
55. Did every member of the management or executive director inform the Supervisory or Management Board of the company of each change relating to their acquisition or disposal of shares of the company or to the possibility to exercise voting rights arising from the company's shares not later than on the next business day after such a change occurs, whereas the company has the obligation to publish such a change within the shortest possible time? (If not, why?)	YES	
56. Please provide information on all transactions involving both members of the management or executive directors and persons related to them, and the company or persons related to it.		There were no such activities.
57. Were all transactions involving members of the management or executive directors and persons related to them and the company and persons related to it:		
concluded based on the current market situation (especially with regard to time limits, interest, guarantees etc.)? (If not, why and which transactions were those?)	NO	There were no such activities.
clearly presented in reports of the company (If not, why and which transactions were those?)	NO	There were no such activities.
confirmed by an independent estimate of experts independent as regards the participants in the said transaction? (If not, why and which transactions were those?)	NO	There were no such activities.
58. Do any members of the management or executive directors own a significant holding in the companies which might be considered as the company's competition? (If so, which members, where do they own holdings, and what is the size of those holdings?)	NO	

59. Are any members of the management or executive directors also members of the Supervisory Boards of other companies? (If so, provide the names of those members of the management, names of the companies in which they are members of the Supervisory Board, and functions they exercise in those Supervisory Boards)	YES	Miroslav Vitković - BELUPO d.d. president of Supervisory Board, DANICA d.o.o. Supervisory Board member, PODRAVKA-LAGRIS a.s. Supervisory Board member, PODRAVKA INTERNATIONAL USA Inc Supervisory Board member, Marin Pucar - BELUPO d.d.Supervisory Board member, DANICA d.o.o. Supervisory Board member, PODRAVKA LAGRIS a.s.Supervisory Board member, PODRAVKA INTERNATIONAL USA Supervisory Board member, Krunoslav Beširʹ - DANICA d.o.o. president of Supervisory Board, BELUPO d.d. Supervisory Board member, Lidija Kljajić - BELUPO d.d. Supervisory Board member, DANICA d.o.o. Supervisory Board member, Miroslav Repić - BELUPO d.d. Supervisory Board member
60. Does the company have an external auditor (If not, why?)	YES	
61. Is the external auditor of the company:		
related with the company in terms of ownership or interests (If so, state in which way)	NO	
providing to the company, him/herself or through related persons, other services? (If so, provide information on those services and on how much it costs the company)	NO	
62. Have the independent auditors directly informed the audit committee of the following issues:		
discussions on the main accounting policy,	YES	
major deficiencies and significant shortcomings in the internal audit system,	NO	There were no such deficiencies.
alternative accounting procedures,	YES	
disagreement with the management,	NO	There was no such disagreement.
risk assessment, and	YES	
analysis, if any, of fraud and/or abuse.	NO	There was no such cases.
If not, why?		
63. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, why?)	NO	There is no obligation of submitting requested information.
64. Does the company have internal auditors and an internal audit system established? (If not, why?)	YES	
65. Do investors have the possibility to request in writing and receive on time all relevant records from the management of the company or from the person in the company responsible for investor relations? (If not, why?)	YES	
66. How many meetings did the management of the company hold with investors?		In 2011 company representatives participated on several investor conferences and held 47 meetings with the investors.

67. Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside it shortcomings in the application of rules or ethical norms within the company? (If so, why?)	NO	
68. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, truthful in their entirety? (If not, please provide names of the members of the management and the Supervisory Board who do not agree with some of the answers, list the answers they do not agree with and explain why.)	YES	

COMPANY SECURITIES

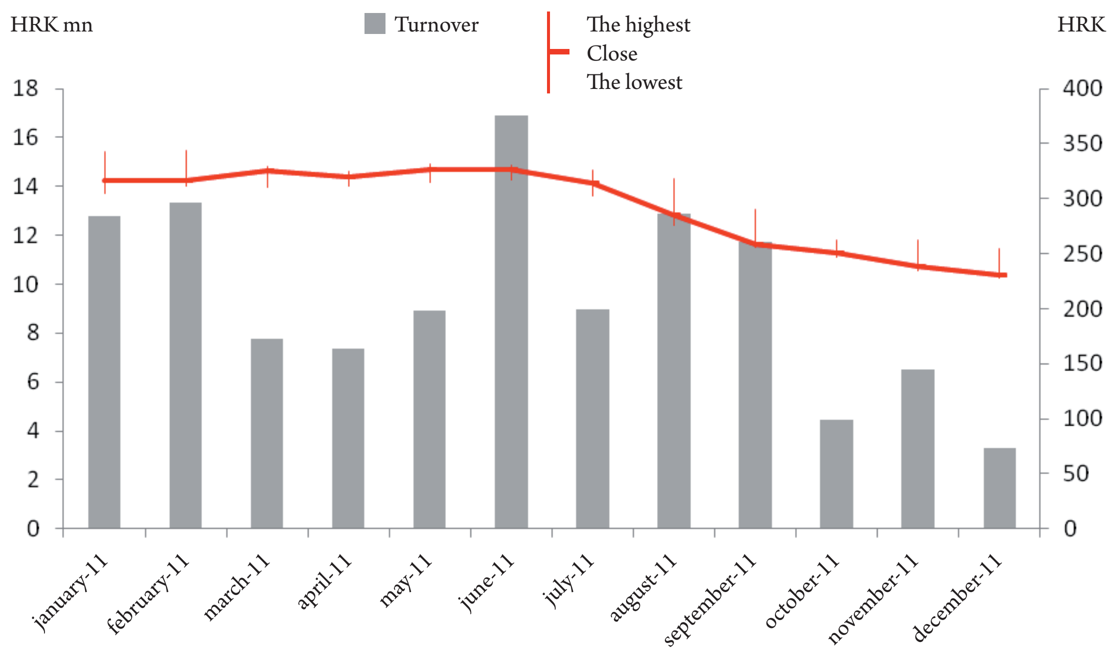
SHARE

Podravka share has been listed in the Official Market of the Zagreb Stock Exchange on 7 December 1998 with the symbol PODR-R-A. It is one of the fifteen most solvent shares of the Zagreb Stock Exchange in 2011 with significant annual turnover.

Turnover and price
Total turnover of Podravka share in 2011 was HRK 114,962,087 with traded volume of 382,153 shares, and in comparison to turnover in 2010 is increased by HRK 17,257,496 million. Regular shares turnover at the Zagreb Stock Exchange decreased in 2011 by 9.4%, while Podravka share turnover was increased by 17.7%. The portion of turnover of Podravka share in the regular turnover of shares at the Zagreb Stock Exchange in the observed period was 2.2% (1.7% in 2010).

Podravka share closes the year 2011 at HRK 231.00, which is 23.7% decrease comparing to the close price in 2010. The lowest selling price of the share in 2011 was HRK 227.51 and it was realized in December, while the highest selling price was 343.97 and it was realized in February. WACP of Podravka share in 2011 was HRK 301.05, which is 2.5% decrease compared to 2010.

Turnover and price of Podravka share



Podravka share turnover per quarters in 2011

	2010		2011	
Period	**Turnover (HRK)**	**Volume**	**Turnover (HRK)**	**Volume**
I quarter	33,175,309	98,786	33,885,183	104,393
II quarter	20,668,589	63,565	33,192,752	103,135
III quarter	16,494,715	58,623	33,635,111	116,519
IV quarter	27,365,978	96,040	14,249,041	58,106
Total	**97,704,591**	**317,014**	**114,962,087**	**382,153**

Source: ZSE

The highest turnover of Podravka share was in the first three quarters of 2011, while in the last quarter the intensity of trading with Podravka's share is decreasing, which complies with the decrease of regular turnover at the Zagreb Stock Exchange, which was recorded in the fourth quarter.

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

	Turnover (HRK mil.)		Portion	
Period	**2010**	**2011**	**2010 portion**	**2011 portion**
I quarter	**1,295**	**2,431**	**22%**	**46%**
II quarter	**1,412**	**1,074**	**25%**	**21%**
III quarter	**874**	**1,055**	**15%**	**20%**
IV quarter	**2,196**	**673**	**38%**	**13%**
Total share turnover at ZSE	**5,777**	**5,233**	**100%**	**100%**

Sources: ZSE

Prices in the period 2005 -2011 (base index (100) = year 2005)

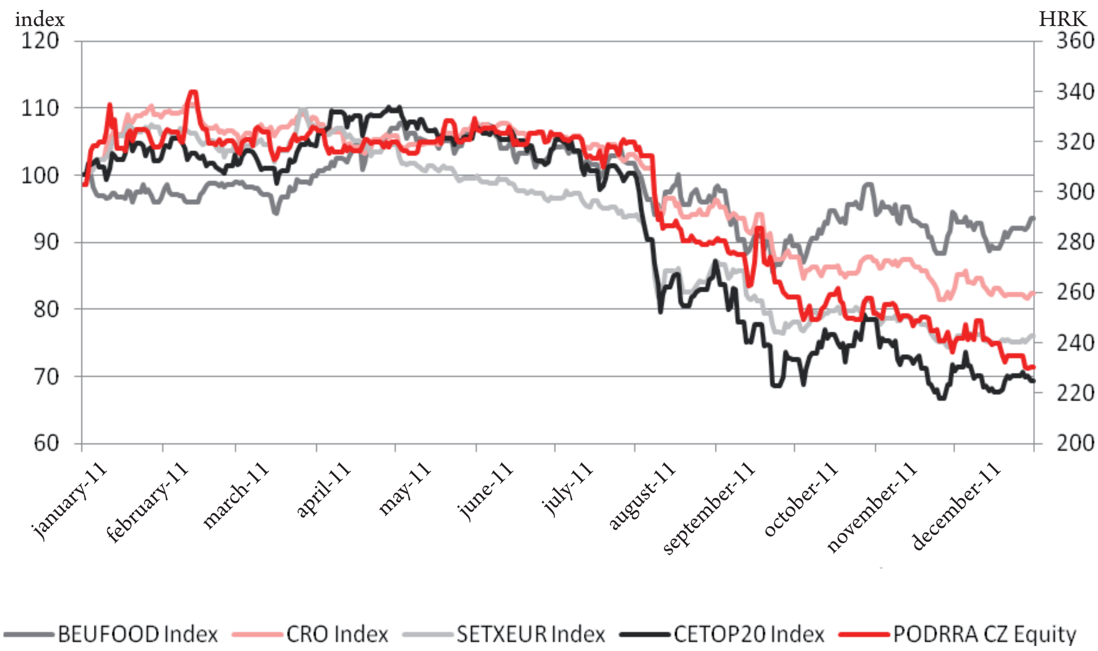
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
The highest (HRK)	365.00	495.00	645.00	514.00	338.50	400.00	343.97
The lowest (HRK)	229.00	315.00	440.00	237.00	176.00	240.00	227.51
Close (HRK)	318.00	470.01	510.00	261.00	296.99	302.68	231.00
Change index	100.00	147.80	160.38	82.08	93.39	95.18	72.64
CROBEX value (on 31 December)	1,997.50	3,209.50	5,210.30	1,722.25	2,004.06	2,110.93	1,740.21
Change index	100.00	160.68	260.84	86.22	100.33	105.68	87.12

CROBEX value change index has in the period from 2005 to 2007 grown for more than twice, while change index for the close price of Podravka share in that period also increased, but at a slower pace. In 2008 as a consequence of the world economic crisis, CROBEX value and Podravka share price significantly decreased. After that, during 2009 and 2010 a slight market recovery is observed, with the increase of CROBEX value and Podravka share price, but in 2011 CROBEX value and Podravka share price are decreasing again.

Podravka share over three-year period

	2009	**2010**	**2011**
The highest (HRK)	338.50	400.00	343.97
The lowest (HRK)	176.00	240.00	227.51
Close (HRK)	296.99	302.68	231.00
Annual turnover (HRK)	100,445,871	97,704,591	114,962,087
WACP (HRK)	238.39	308.73	301.05
Market capitalization (mil. HRK)	1,609.70	1,640.53	1,252.02
EPS	-72.65	16.07	13.22
P/E	-4.09	18.84	17.47
P/BV	1.07	1.03	0.75
Dividend	-	-	-

Comparison of Podravka share and stock market indices (base index (100) = 1 Jan 2011)



BEUFOOD index (Bloomberg Europe Food Index) is a capitalization-weighted index of the leading food stocks in Europe.

CROBEX (CRO Index) is the official index of the Zagreb Stock Exchange, weighted by the free float market capitalization of shares traded at the Zagreb Stock Exchange.

SETX index (South-East Europe Traded Index) unites share price trends of the 14 largest companies listed on stock exchanges of Zagreb, Ljubljana, Bucharest and Sophia and it is issued by the Vienna Stock Exchange.

CETOP20 index (Central European Blue Chip Index) consists of 20 blue chip shares listed in the stock markets of Budapest, Prague, Warsaw, Zagreb, Ljubljana and Bratislava.

The chart displays movement of Podravka share price in 2011, with the share price consistently moving with the index price.

Stock market indices

Podravka share has been listed in several stock market indices based on its high solvency and high number of shares in free float. Apart from the official index of the Zagreb Stock Exchange CROBEX, the share has also been listed in CROBEX10 and regional index Dow Jones STOXX Sub Balkan 30.

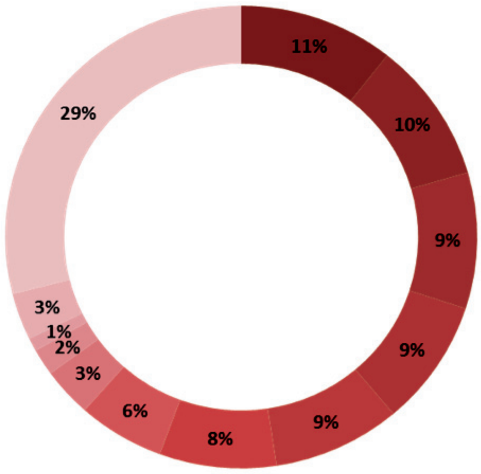
Portion of Podravka share in stock market indices on 31 December 2011

CROBEX	**6.23 %**
CROBEX10	**10.53%**

Recommendations of analysts on 31 December 2011

INTERCAPITAL	BUY
RAIFFEISEN BANK	HOLD
ERSTE BANK	ACCUMULATE
HYPO-ALPE-ADRIA BANK	BUY

Shareholder structure on 31 December 2011



	SHAREHOLDERS	NO. OF SHARES
■	GAMA/CIPI	575,598
■	GAMA/REPUBLIC OF CROATIA	535,170
■	ERSTE PLAVI MPF	514,863
■	AZ MPF	479,532
■	PBZ CROATIA OSIGURANJE MPF	474,607
■	UNICREDIT BANK AUSTRIA AG*	434,035
■	KAPITALNI FOND D.D.	321,804
■	RAIFFEISEN MPF	185,531
■	PBZ D.D.*	100,771
■	PBZ D.D. / State street client account	50,335
■	TREASURY ACCOUNT	177,551
■	OTHER SHAREHOLDERS	1,570,246
	TOTAL NO. OF SHARES	5,420,003

**omnibus custody account*
GAMA – Government Asset Management Agency
CIPI – Croatian Institute for Pension Insurance
MPF – Mandatory Pension Fund

Treasury account status

Considering the fact that there was no acquiring or releasing of own shares in 2011, on 31 December 2011 the situation was unchanged comparing to 31 December 2010, when there were 177,511 of own shares.

Shares owned by members of the Supervisory and Management Boards of Podravka d.d. at 31 December 2011

The Supervisory Board	62 shares
The Management Board	463 shares

BOND

Podravka's bond was issued on 17 May 2006 and has been listed in the Official bonds market of the Zagreb Stock Exchange on 19 May 2006 and its symbol is PODR-O-115A. This bond was the first corporate bond in Kuna currency in the Croatian capital market. The issue of the bond is HRK 375 million with annual interest rate of 5.125%, and maturity was on 17 May 2011 when Podravka redeemed the bonds.

COMMERCIAL NOTES

As part of the commercial notes issuing program amounting to HRK 350 million, on 8 February 2010 the second installment of commercial notes was issued and it was listed in the Official Market of the Zagreb Stock Exchange with the symbol PODR-M-106A. Nominal amount of this second installment was HRK 130 million, return 9.15%, issue price 91.638%, and maturity 364 days, so on 7 February 2011 this installment of commercial notes was redeemed.

PODRAVKA d.d. and Its Subsidiaries, Koprivnica

Consolidated Financial Statements
for the year ended 31 December 2011
Together with Independent Auditor's Report

RESPONSIBILITY 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 consolidated 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 consolidated 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 consolidated 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:

Zvonimir Mršić

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 21 March 2012

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 2011, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Group'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.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2011, 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, 21 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of HRK)	Note	2011	2010
Sales	5	3,625,162	3,522,272
Cost of goods sold	8	(2,196,530)	(2,075,312)
Gross profit		**1,428,632**	**1,446,960**
Investment revenue	6	13,334	13,048
Other loss, net	7	(20,465)	(50,856)
General and administrative expenses	9	(272,215)	(247,649)
Selling and distribution costs	10	(527,896)	(554,157)
Marketing expenses	11	(426,309)	(401,216)
Other expenses	12	(1,918)	(1,273)
Finance costs	15	(100,010)	(95,521)
Profit before tax		**93,153**	**109,336**
Income tax expense	17	(23,724)	(25,262)
Profit for the year		**69,429**	**84,074**
Other comprehensive income			
Exchange differences on translation of foreign operations		(10,692)	13,521
Total comprehensive income		**58,737**	**97,595**
Profit for the year attributable to:			
To the equity holders of the parent		69,281	84,235
Non-controlling interests		148	(161)
Total comprehensive income attributable to:			
To the equity holders of the parent		58,297	97,609
Non-controlling interests		440	(14)
Earnings per share:			
- Basic	18	13.22	16.07
- Diluted	18	13.08	15.97

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011

(in thousands of HRK)	Note	31/12/2011	31/12/2010
ASSETS			
Non-current assets			
Goodwill	20	41,129	44,293
Intangible assets	21	270,798	308,040
Property, plant and equipment	22	1,519,649	1,642,820
Long term financial assets	24	4,323	9,142
Deferred tax assets	17	56,022	52,330
Total non-current assets		**1,891,921**	**2,056,625**
Current assets			
Inventories	25	700,583	692,094
Trade and other receivables	26	1,058,040	1,083,543
Financial assets at fair value through profit and loss	27	559	14,796
Cash and cash equivalents	28	145,960	152,363
		1,905,142	1,942,796
Non-current assets held for sale	29	57,657	8,768
Total current assets		**1,962,799**	**1,951,564**
Total assets		**3,854,720**	**4,008,189**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	30	1,582,966	1,580,734
Reserves	31	119,645	126,937
Accumulated loss	32	(41,611)	(107,200)
Attributable to the equity holders of the parent		**1,661,000**	**1,600,471**
Non-controlling interests	33	34,787	34,347
Total shareholders' equity		**1,695,787**	**1,634,818**
Non-current liabilities			
Long-term borrowings	35	897,616	558,957
Provisions	36	34,326	30,037
Deferred tax liability	17	6,997	7,141
Total non-current liabilities		**938,939**	**596,135**
Current liabilities			
Trade and other payables	37	710,789	800,591
Financial liabilities at fair value through profit and loss	34	-	371,100
Short-term borrowings	35	485,733	581,691
Provisions	36	23,472	23,854
Total current liabilities		**1,219,994**	**1,777,236**
Total liabilities		**2,158,933**	**2,373,371**
Total equity and liabilities		**3,854,720**	**4,008,189**

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 2011

(in thousands of HRK)	Notes	Share capital	Reserves	Accumulated loss	Total	Non-controlling interest	Total
Balance at 1 January 2010	30, 31, 32, 33	**1,583,691**	**109,825**	**(188,781)**	**1,504,735**	**34,361**	**1,539,096**
Profit for the year		-	-	84,235	84,235	(161)	84,074
Other comprehensive income		-	13,374	-	13,374	147	13,521
Total comprehensive income		-	13,374	84,235	97,609	(14)	97,595
Fair value of share based payments		(2,957)	-	-	(2,957)	-	(2,957)
Transfer to other and legal reserves		-	3,738	(2,654)	1,084	-	1,084
Balance at 31 December 2010	30, 31, 32, 33	**1,580,734**	**126,937**	**(107,200)**	**1,600,471**	**34,347**	**1,634,818**
Profit for the year		-	-	69,281	69,281	148	69,429
Other comprehensive income		-	(10,984)	-	(10,984)	292	(10,692)
Total comprehensive income		-	(10,984)	69,281	58,297	440	58,737
Fair value of share based payments		2,232	-	-	2,232	-	2,232
Transfer to other and legal reserves		-	3,692	(3,692)	-	-	-
Balance at 31 December 2011		**1,582,966**	**119,645**	**(41,611)**	**1,661,000**	**34,787**	**1,695,787**

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 2011

(in thousands of HRK)	2011	2010
Profit for the year	**69,429**	**84,074**
Income tax	23,724	25,262
Depreciation and amortization	157,488	155,292
Impairment loss on brands and pharmaceutical rights	41,041	-
Impairment loss on assets held for sale	16,642	-
Impairment loss on goodwill	7,134	-
Impairment loss on value adjustment of financial assets, net	3,500	1,649
Loss / (gain) on value adjustment of share based payments	2,232	(2,957)
Loss / (gain) on disposal of non-current assets, net	384	(4,661)
Loss from remeasurement of bonds at fair value through profit or loss	3,632	34,157
Unrealised (gain) / loss per contract on interest swap	(830)	4,137
(Gain) / loss per options contracts	(16,537)	21,008
SMS brand recognition	(7,800)	-
Value adjustment of current assets	5,367	22,991
Increase in long-term and short-term provisions	3,907	177
Interest income	(9,216)	(9,191)
Interest expenses	84,485	88,376
Effect of changes in foreign exchange rates	15,860	16,534
Other items not affecting cash	(1,823)	(406)
Changes in working capital:		
Increase in inventories	(7,371)	(49,942)
(Increase) / decrease in trade receivables	(32,358)	99,055
Increase in other current assets	(18,174)	(14,335)
Increase / (decrease) in trade payables	26,037	(21,321)
Decrease in other liabilities	(96,920)	(136,922)
Net cash generated from operations	**269,833**	**312,977**

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

(in thousands of HRK)	2011	2010
Cash flows from operating activities		
Cash generated from operations	269,833	312,977
Income taxes paid	(21,118)	(25,574)
Interest paid	(95,444)	(90,634)
Net cash from operating activities	**153,271**	**196,769**
Cash flows from investing activities		
Proceeds from recovery of insurance premiums	23,723	-
Payments made for property, plant and equipment, and intangible assets	(102,249)	(91,068)
Sale of tangible and intangible assets	8,249	10,446
Long-term loans and deposits given	(10)	(309)
Collection of long-term loans and deposits given	3,587	1,002
Purchase of trading securities	(97,843)	(68,300)
Sale of trading securities	111,102	74,176
Short-term loans and deposits given	(280)	(2,108)
Collection of short-term loans and deposits given	46,652	2,078
Collected interest	9,237	9,191
Acquisition of subsidiaries, net of cash acquired	(6,843)	-
Proceeds from disposed share units in Pharma Net d.o.o.	-	1,000
Net cash used in investing activities	**(4,675)**	**(63,892)**
Cash flows from financing activities		
Proceeds from long-term borrowings	602,508	239,206
Repayment of long-term borrowings	(612,808)	(129,891)
Proceeds from short-term borrowings	76,960	519,693
Repayment of short-term borrowings	(221,659)	(754,791)
Net cash used in financing activities	**(154,999)**	**(125,783)**
Net (decrease) / increase in cash and cash equivalents	**(6,403)**	**7,094**
Cash and cash equivalents at beginning of year	152,363	145,269
Cash and cash equivalents at the end of year	145,960	152,363

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

Podravka prehrambena industrija d.d., Koprivnica (the Company) is incorporated in the Republic of Croatia. The principal activities of the Group comprises production of a wide range of foodstaffs and non-alcoholic beverages as well as manufacture and distribution of drugs, pharmaceutical products, disinfection agents, cosmetics, auxiliary medical preparations and other chemicals.

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

As at 31 December 2011, the Company's shares were included in the Official Market 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	Hrvoje Matić

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

Supervisory Board
Supervisory Board members during 2011:

President	Ljubo Jurčić *(until 24 February 2012)*
Deputy President	Ksenija Horvat *(until 8 April 2011)*
Member	Miljenko Javorović *(until 24 February 2012)*
Member	Dubravko Štimac *(until 24 February 2012)*
Member	Karmen Antolić
Member	Nikola Gregur
Member	Petar Vlaić
Member	Dinko Novoselec
Member	Petar Miladin
Member	Martinka Marđetko-Vuković *(from 8 April 2011)*
President	Dubravko Štimac *(from 24 February 2012)*
Deputy President	Mato Crkvenac *(from 24 February 2012)*
Member	Ivo Družić *(from 24 February 2012)*

President	Ljubo Jurčić
Member	Miljenko Javorović
Member	Ksenija Horvat
Member	Darko Tipurić *(until 7 September 2010)*
Member	Branko Vuljak *(from 1 June 2010 until 7 September 2010)*
Member	Dražen Sačer *(until 20 July 2010)*
Member	Dubravko Štimac *(until 20 July 2010 and from 7 September 2010)*
Member	Karmen Antolić
Member	Nikola Gregur
Member	Petar Vlaić *(from 7 September 2010)*
Member	Dinko Novoselec *(from 7 September 2010)*
Member	Petar Miladin *(from September 2010)*

Supervisory Board members in 2010:

- On 23 February 2012, the State Property Management Agency recalled then active members of the Supervisory Board of Podravka d.d. Ljubo Jurčić and Miljenko Javorović and appointed Mato Crkvenac and Ivo Družić as new members of the Supervisory Board of Podravka d.d.
- The Supervisory Board of Podravka d.d. adopted in its meeting held on 24 February 2012 a decision to appoint Dubravko Štimac as President and Mato Crkvenac as Deputy President of the Supervisory Board od Podravka d.d.
- By the Podravka General Assembly decision held on 31 August 2010. the statute was amended, amending the provision on the number of members of the Supervisory Board, in a way that reduces the number of members to the Supervisory Board to nine members.

Management Board during 2011:

President	Miroslav Vitković *(until 24 February 2012)*
Member	Marin Pucar *(until 24 February 2012)*
Member	Lidija Kljajić *(until 24 February 2012)*
Member	Krunoslav Bešvir *(until 24 February 2012)*
Member	Miroslav Repić *(until 24 February 2012)*
President	Zvonimir Mršić *(from 24 February 2012)*
Member	Jadranka Ivanković *(from 24 February 2012)*
Member	Olivija Jakupec *(from 24 February 2012)*
Member	Miroslav Klepač *(from 24 February 2012)*
Member	Jorn Pedersen *(from 24 February 2012)*

Management Board during 2010:

President	Miroslav Vitković
Member	Marin Pucar
Member	Lidija Kljajić
Member	Krunoslav Bešvir
Member	Branko Vuljak *(until 31 May 2010)*
Member	Miroslav Repić *(from 1 June 2010)*

- In the Meeting of the Supervisory Board of Podravka d.d. held on 24 February 2012, President of the Management Board Miroslav Vitković and Management Board Members Marin Pucar, Lidija Kljajić, Krunoslav Bešvir and Miroslav Repić filed their resignations and thus their membership on the Management Board of Podravka d.d. ceased. In the same meeting, the Supervisory Board appointed Zvonimir Mršić as the new President of the Management Board and Jadranka Ivanković, Olivija Jakupec, Miroslav Klepač and Jorn Pedersen as the new members of the Board for a term of 5 years, which starts running from the date of the adoption of the underlying decision.

- The Supervisory Board of Podravka d.d. issued a decision on 31 May 2010 on the re-appointment of the president and board members for another term, which lasts for five years from 1 June 2010. Mr. Branko Vuljak was released from his mandate as of 1 June 2010 and he became a member of the Supervisory Board of Podravka d.d.

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:

- **Amendments to IFRS 1 *First-time Adoption of IFRS***- Limited Exemption from Comparative IFRS 7 *Disclosures* for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to 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 "Improvements to IFRSs (2010)"** resulting from the Annual Qualitative Improvement of IFRSs, published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (to be applied for annual periods beginning on or after 1 July 2010 or on or after 1 January 2011, depending on the standard/interpretation),
- **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),
- **IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*** (effective for annual periods beginning on or after 1 July 2010)

The adoption of the amended and revised Standards and Interpretations has not lead to any changes in the Group's accounting policies.

2.2 Standards and Interpretations in issue not yet adopted

At the date of authorization of these consolidated financial statements the following Standards, revisions and Interpretations were in issue but not yet effective:

- **IFRS 9 *Financial Instruments*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 10 *Consolidated Financial Statements*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11 *Joint Arrangements*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12 *Disclosures of Involvement with Other Entities*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13 *Fair Value Measurement*** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (as revised in 2011) *Separate Financial Statements*** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (as revised in 2011) IAS 28 (Revised in 2011) *Investments in Associates and Joint Ventures*** (effective for annual periods beginning on or after 1 January 2013)
- **Amendments to IFRS 1 *First-time Adoption of IFRS*** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7 *Financial Instruments: Disclosures*** - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 1 *Presentation of Financial Statements*** - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 *Income Taxes*** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 19 *Employee Benefits*** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*** (effective for annual periods beginning on or after 1 January 2013),

The Group has elected not to adopt these Standards, revisions and Interpretations in advance of their effective dates and anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the consolidated financial statements in the period of initial application.

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, 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 consolidated 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 21 March 2012.

3.3. Formal investigation

In January 2011, formal investigation by various authorities of the Republic of Croatia regarding the various business and financial transactions that individual members of the former Management Board carried out beyond the provision of the Company's Statute and Management Board decisions during their mandate have been completed. Management of the Company has examined the risks that may arise from financial and business transactions that were the subject of these investigations, and appropriately reflected such risks in the consolidated financial statements of Podravka Group.

With the consent of the Supervisory Board in its constitution at the reporting date of the consolidated and unconsolidated financial statements, the Management Board reached with parties involved in the business transactions an agreement, whereby Podravka d.d. paid additional HRK 49,269 thousand (EUR 6,576,954.00) to one of the parties, acting as a factor, to the Settlement Agreement concluded on 23 November 2011, in addition to the previously paid deposit in the amount of HRK 46,446 thousand (EUR 6,200,000.00) and accrued interest in the amount of HRK 1,668 thousand (EUR 225,397.00), which are reported in these financial statements under investment income.

These financial statements include all the known effects arising from those contracts. Based on the transactions recognised, the obligations of Podravka d.d. and the Podravka Group in connection with those contracts were fully met, and the entire transaction was finalised.

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.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

3.5. Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business , less accumulated impairment loss, if any.
For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, 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 based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3.6. Non-current assets held for sale

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

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

3.7. Revenue recognition

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

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

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

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

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

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

(b) Sales of products and goods – retail

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

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

(f) Government subsidies

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

Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income by a seller-lessee. Instead, it is deferred and amortised over the lease term.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately. If the sale price is below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

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 consolidated financial statements are presented in Croatian kuna (HRK), which is the Parent'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 loss 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 2011, the official exchange rate for EUR 1 and USD 1 was HRK 7.53042 and HRK 5.81994 (31 December 2010: HRK 7.3852 and HRK 5.5683, respectively).

3.10. Borrowing costs

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

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

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

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

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

3.11. Share-based payments

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

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

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

3.12. Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or loss already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

3.13. Dividends

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

3.14. Segment reporting

The Group identifies operating segments 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. Details on the operating segments are disclosed in Note 5 to the consolidated financial statements.

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

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

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

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

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

Current and deferred tax for the period

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

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

Value added tax (VAT)

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

3.16. Property, plant and equipment

Property, plant and equipment are included in the consolidated 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:

	2011	2010
Buildings	10 to 50 years	10 to 50 years
Equipment	3 to 30 years	3 to 30 years

The effect of changed depreciation rates on the depreciation charge is presented in the Note 4.

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 3.18).
Gains and loss on disposals are determined by comparing the proceeds with carrying amount, and are recognised within line item 'Other loss – net' in the consolidated statement of comprehensive income.

3.17. Intangible assets

Licences, brands, distribution rights and registration files

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

Rights to acquired trademarks and know-how are carried at historical cost and have an indefinite useful life, since based on an analysis of all of the relevant factors, there is no foreseeable limit to the period of time over which the asset is expected to generate net cash inflows. The stated right are tested annually for impairment and are stated at cost less accumulated impairment loss (Note 3.18).

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 loss, on the same basis as intangible assets that are acquired separately.

3.18. Impairment of tangible and intangible assets

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

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

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

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

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

3.19. 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.

3.20. Trade receivables

Trade receivables are recognised initially at cost which is equal to the fair value at the moment of recognition 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'.

3.21. 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 consolidated statement of financial position.

3.22. 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.

3.23. 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 loss are recognised in full in the period in which they occur.

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

(e) Short-term employee benefits

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

(f) Share-based compensation

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

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

3.24. Provisions

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

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

3.25. Financial assets

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

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

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

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

Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in the statement of comprehensive income incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 35.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment.

Available-for-sale financial assets (AFS)

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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 loss arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment loss, interest calculated using the effective interest method and foreign exchange gains and loss on monetary assets, which are recognised directly in statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in statement of comprehensive income for the period.

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

The fair value of AFS monetary financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate prevailing at the end of the reporting period. The foreign exchange gains and loss that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and loss are recognised in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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 the end of each reporting period. Financial assets are considered to be impaired when 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 affected.
For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 360 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.
For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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

When an AFS financial asset is considered to be impaired, cumulative gains or loss previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity securities, impairment loss previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt securities, impairment loss are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets

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

3.26. 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 liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

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

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

Contracts on financial guarantee

Agreement on the financial guarantee is a contract under which the issuer is obligated to pay the holder a certain sum as compensation for loss suffered by the owner because the borrower has not fulfilled its obligation to pay under the terms of a debt instrument.
Financial guarantee contracts issued by the Group initially measured at fair value and subsequently, if they are not destined for at fair value through profit or loss, the higher of:

- the amount of the obligation under the contract, which is determined in accordance with IAS 37 Provisions , Contingent Liabilities and Contingent Assets ",
- original amount minus the cumulative depreciation, if any, are recognized in accordance with revenue recognition policies.

Derecognition of financial liabilities

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

3.27. **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 2011, the directors determined that the useful life of certain items of property, plant and equipment exceeded the original estimates, resulting in a decreased depreciation charge of HRK 4 thousand.
During 2010, the directors determined that the useful life of certain items of property, plant and equipment exceeded the original estimates, resulting in a decreased depreciation charge of HRK 1,516 thousand.

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 2011 the Group recognized impairment of intangible assets as follows: brands by HRK 40,275 thousand, goodwill by HRK 7,134 thousand, pharmaceuticals rights by HRK 766 thousand and also during the year 2011 the Group recognised SMS brand at the value of HRK 7,800 thousand (during 2010 the Group did not recognise any impairment of intangible assets) (Note 20).
The carrying amount of goodwill is HRK 41,129 thousand (2010: HRK 44,293 thousand) (see Note 20).

For individual intangible assets, discounted cash flows were determined using the revised plans developed by market and product category, adopted by Management Board. The changes in the budgeted income and expenses for certain brands and companies resulted from a detailed analysis of the actual performance in 2011 versus 2010, and the 2010 performance versus 2009 in which it was identified a trend of significant underperformance compared to the plans adopted in those years. The Management is confident that the actual figures, based on such changed plans, will show minimal departures from the budgeted ones.

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 2010 and 2011 Group recognized deferred tax assets at the available tax differences.
The carrying amount of deferred tax assets was HRK 56,022 thousand (2010: HRK 52,330 thousand) (see Note 17).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. At 31 December 2011, provisions for jubilee benefits amount to HRK 12,004 thousand and retirement bonuses amount to HRK 13,689 thousand. (2010: the provisions for jubilee benefits amounted to HRK 12,253 thousand and retirement bonuses amounted to HRK 12,511 thousand (see notes 36 and 38).

Consequences of certain legal actions

There are a number of legal actions involving certain companies within 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 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

	2011	2010
	(in thousands of HRK)	
Product and merchandise sales	3,587,891	3,483,474
Service sales	37,271	38,798
	3,625,162	**3,522,272**

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 Pharmaceutical.
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.

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)	**2011**	**2010**	**2011**	**2010**
Culinary	1,182,819	1,175,605	134,893	162,347
Food	790,701	742,652	37,910	46,545
Meat and Fish Products	514,029	502,279	2,156	6,160
Beverages and other	342,811	358,901	(9,145)	4,566
Pharmaceutical	794,802	742,835	130,448	108,718
	3,625,162	**3,522,272**	**296,262**	**328,336**
Investment revenue			13,334	13,048
Other loss, net (Note 7)			(20,465)	(50,856)
Central administration costs			(85,304)	(71,929)
Restructuring and other expenses			(10,664)	(13,742)
Finance costs			(100,010)	(95,521)
Profit before tax			**93,153**	**109,336**

The Culinary segment comprises the following product groups: Food Seasoning, Podravka Meals, Condiments, Vegetable Products, and Tomato 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 'Beverages and Other' segment comprises the following product groups: Non-alcoholic beverages, Merchandise, and Services.

The Meat and Fish Products segment comprises the following product groups: Meat products and Eva fish products.

The Pharmaceutical segment comprises the following: Ethical drugs, No Prescription Program.
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

Segment assets	**31/12/2011**	**31/12/2010**
	(in thousands of HRK)	
Culinary	1,049,147	1,132,645
Food	773,036	789,661
Beverages and other	412,167	490,974
Meat and fish Products	416,031	427,903
Pharmaceutical	1,143,994	1,105,534
Total segment assets	**3,794,375**	**3,946,717**
Unallocated	60,345	61,472
Consolidated assets	**3,854,720**	**4,008,189**

Segment liabilities	**31/12/2011**	**31/12/2010**
	(in thousands of HRK)	
Culinary	532,560	581,806
Food	392,403	406,167
Beverages and other	209,222	252,199
Meat and fish Products	211,183	219,801
Pharmaceutical	580,707	567,879
Total segment liabilities	**1,926,075**	**2,027,852**
Unallocated	232,858	345,519
Consolidated liabilities	**2,158,933**	**2,373,371**

For the purposes of monitoring segment performance, all assets other than deferred tax assets and other financial assets (Notes 17 and 24) have been allocated to segments.

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

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Other segment information

	Depreciation and amortisation		**Additions to non-current assets**	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Culinary	43,125	41,719	29,074	33,572
Food	32,693	30,904	23,235	9,933
Beverages and other	20,336	23,486	12,058	11,410
Meat and fish Products	16,433	16,695	13,787	7,865
Pharmaceutical	44,901	42,488	39,016	28,288
	157,488	**155,292**	**117,170**	**91,068**

In 2011, impairment loss and the related adjustments to intangible assets recognised by segment were as follows:

(in thousands of HRK)	**31/12/2011**
Culinary	(25,700)
Beverages and other	(14.575)
Pharmaceutical - pharmaceutical rights	(766)
Total brands and pharmaceutical rights impairment loss	**(41,041)**
Goodwill impairment	(7,134)
SMS brand recognition	7,800
Net impairment loss on brands, goodwill and pharmaceutical rights	**(40,375)**

No adjustments resulting from impairment were recogised for the year 2010.

The contract between Podravka Lagris a.s., u Luhačovic and Kraft, a long-term partner in the service production of Tang juice powder expired at the end of 2011.

The sales and gross profit generated in 2011 from the co-operation with the partner amounted to HRK 10,117 thousand and HRK 3,537 thousand, respectively.

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)	**2011**	**2010**	**2011**	**2010**
Croatia	1,741,824	1,741,317	1,613,216	1,749,645
South-East Europe	877,265	815,215	133,922	152,962
Central and Eastern Europe	714,640	684,106	83,697	91,968
Western Europe and overseas countries	291,433	281,634	741	578
	3,625,162	**3,522,272**	**1,831,576**	**1,995,153**

Information about major customers

Third-party sales in Croatia account for 48% (2010: 49%) of the total revenue from external customers, whereas the remaining 52% (2010: 51%) represent foreign sales. Top 20 customers account for 42% (2010: 43%) of the external sales.

NOTE 6 – INVESTMENT REVENUE

	2011	**2010**
	(in thousands of HRK)	
Interest on term deposits and trade debtors	8,629	8,280
Revenue from the sale and leaseback transaction	2,867	2,867
Interests - others	587	1,104
Other	1,251	797
	13,334	**13,048**

Investment revenue analysed by asset category:

	2011	**2010**
	(in thousands of HRK)	
Receivables for interest on trade receivables and other receivables	8,629	8,280
Other financial assets	4,705	4,768
	13,334	**13,048**

NOTE 7 – OTHER LOSS, NET

	2011	**2010**
	(in thousands of HRK)	
Impairment loss on brands, pharmaceutical rights	(41,041)	-
Impairment loss on assets held for sale	(16,642)	-
Impairment loss on goodwill	(7,134)	-
Loss on remeasurement of liabilities at fair value through statement of the comprehensive income	(3,632)	(34,157)
Impairment loss on value adjustment of financial assets, net	(3,500)	(1,649)
(Loss) / gain on disposal of non-current assets, net	(384)	4,661
Grant income (subsidies)	3,981	2,957
SMS brand recognition	7,800	-
Gain / (loss) per options contracts	16,537	(21,008)
Gains from insurance premium	23,723	-
Other adjustments	-	89
	(20,292)	**(49,107)**
Foreign exchange loss, net	(173)	(1,749)
	(20,465)	**(50,856)**

Impairment loss on brands in the amount of HRK 41,041 thousand (2010: nil) relate to the impairment of the Warzywko brand (HRK 25,700 thousand), the Lero brand (HRK 14,575 thousand) and pharmaceutical rights (HRK 766 thousand) were recognised on the basis of the impairment test results.

Impairment losses on goodwill in the amount of HRK 7,134 thousand (2010: nil) consist of the impairment of goodwill in respect of the following: Ital-Ice d.o.o. in the amount of HRK 2,218 thousand; Lero d.o.o. in the amount of HRK

1,324 thousand; Lagris a.s. D Lhota in the amount of HRK 1,354 thousand, and the pharmacies Derjanović, Duga Resa; Kuruc, Koprivnica; and Sobol-Šnajdar, Crikvenica in the total amount of HRK 2,238 thousand, all recognised on the basis of the impairment test results.

Gains on recovery of insurance premiums in the amount of HRK 23,723 thousand arise in respect of Belupo d.d. following the expiry of the group insurance policy with a term of 15 years.

Gains on option contracts in the amount of HRK 16,537 thousand were incurred as a positive difference between the liabilities recognised in previous years and the liabilities paid in accordance with the settlement agreement between Podravka d.d., OTP and MOL, which was concluded in 2011.

In 2011, the Company recognised the SMS brand at the amount of HRK 7,800 thousand, in accordance with the underlying decision of the Management Board and based on the calculated fair value of intangible assets.

By Decision of the State Intellectual Property Office ("the SIPO") of 27 October 2009, Podravka d.d. was entered into the Register of the SIPO as the owner of the SMS trademark (brand). The valuation of the SMS brand was performed during 2011 when the value of the brand could be determined reliably and when it became probable that future economic benefits from the asset will flow into the Company.

NOTE 8 – COST OF GOODS SOLD

	2011	**2010**
	(in thousands of HRK)	
Raw material and supplies, cost of sold merchandise	1,627,373	1,496,063
Staff costs	317,628	326,068
Depreciation and amortisation	99,217	101,028
Energy	62,553	62,504
Maintenance, materials for maintenance and spare parts	21,629	24,723
Other cost (service, rentals, telecom. and transportation, insurance, taxes, surpluses, etc.)	68,130	64,926
	2,196,530	**2,075,312**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2011	**2010**
	(in thousands of HRK)	
Staff costs	159,967	143,966
Services	29,518	23,672
Depreciation	28,424	25,674
Bank charges	12,988	11,448
Other cost of material and energy	10,194	8,800
Rental costs	7,930	7,218
Taxes and contributions independent of operating results	6,996	6,422
Telecommunications	4,369	4,279
Other expenses (entertainment, per diems, literature, education, admin. fees, etc.)	11,829	16,170
	272,215	**247,649**

During 2011 there was no capitalisation of products development costs since products, whose development started in 2011, have not met criteria for being recognised as intangible assets, and which are required by IAS 38 "Intangible assets" (note 3.17)

NOTE 10 – SELLING AND DISTRIBUTION COSTS

	2011	2010
	(in thousands of HRK)	
Staff costs	248,089	259,497
Service costs	54,102	48,914
Rentals	49,955	54,626
Transportation	43,190	44,904
Energy	28,556	27,923
Depreciation	25,075	24,000
Maintenance	11,368	11,338
Non-manufacturing services and one-off service agreement	10,781	11,668
Other material costs	9,741	10,737
Per diems	8,055	9,012
Entertainment	7,462	7,056
Telecommunications	5,561	5,947
Net provision for trade receivables	5,520	18,304
Professional literature, administrative duties and other	3,728	3,824
Taxes and contributions independent of operating results	3,123	4,665
Inventory deficit	1,780	2,863
Other costs (premiums, spare parts, other costs related to staff and individuals, advanced training costs, impairment losses on inventories, and similar)	11,810	8,879
	527,896	**554,157**

NOTE 11 – MARKETING EXPENSES

	2011	2010
	(in thousands of HRK)	
Retail trader and consumer marketing	153,986	142,200
Staff costs	80,431	74,364
Media investments	75,551	76,162
Other marketing expenses	38,132	37,725
Entertainment	23,359	18,728
Services	13,181	15,095
Per diems	5,708	5,049
Rental costs	5,115	5,799
Market research	4,968	7,696
Depreciation	4,774	4,590
Energy	3,407	2,826
Telecommunications	2,715	2,295
Transportation	2,465	2,213
Other expenses	12,517	6,474
	426,309	**401,216**

NOTE 12 – OTHER EXPENSES

	2011	2010
	(in thousands of HRK)	
Interest expense on trade payables	1,827	1,252
Other interest and finance costs	91	21
	1,918	**1,273**

NOTE 13 – EXPENSES BY NATURE

	2011	2010
	(in thousands of HRK)	
Raw material and consumables used, energy and cost of goods sold	1,777,289	1,651,654
Staff costs	806,116	803,895
Advertising and promotion	272,637	263,783
Depreciation	157,488	155,292
Services	151,948	148,530
Rental costs	68,139	72,778
Transportation	48,412	49,623
Entertainment	34,292	28,459
Taxes and contributions independent of operating results	18,945	21,541
Per diems and travel expenses	17,360	16,655
Cost of disposal of packaging, administrative fees, etc	14,335	11,543
Telecommunications	14,008	13,668
Bank charges	12,988	12,358
Net provision for trade receivables	5,520	18,304
Other expenses	23,473	10,251
	3,422,950	**3,278,334**

NOTE 14 – STAFF COSTS

	2011	2010
	(in thousands of HRK)	
Salaries	772,627	778,437
Transport	10,819	11,054
Termination benefits	9,990	8,101
Share options	2,232	(2,957)
Provisions for liabilities to employees	2,037	(333)
Other	8,411	9,593
	806,116	**803,895**

As at 31 December 2011, the number of staff employed by the Group was 6,377 (2010: 6,570).
In 2011 termination benefits were accrued in the amount of HRK 9,990 thousand and paid to 143 employees.
In 2010 termination benefits were accrued in the amount of HRK 8,101 thousand and paid to 61 employees.

NOTE 15 – FINANCE COSTS

	2011	2010
	(in thousands of HRK)	
Interest expense on long-term borrowings	59,831	21,851
Interest expense on short-term borrowings	11,705	32,679
Interest expense from issued bonds and other	7,369	19,202
Interest expense from finance lease	2,620	2,508
Interest expense on commercial papers	1,135	10,951
Unrealised (gains) / loss per interest swap contract	(830)	4,137
Other	290	-
	82,120	91,328
Net foreign exchange loss on borrowings	17,890	4,193
	100,010	**95,521**

Interest expense on long-term borrowings significantly rose in 2011, whereas interest expense on other sources of financing decreased as a result of a syndicated long-term loan in the amount of EUR 100,000 thousand, a part of which (EUR 32,155 thousand) was utilized at the end of 2010 to repay short-term borrowings, while the remaining portion (EUR 67,845 thousand) was utilised in 2011 to redeem commercial papers and bonds (Note 35), the former on 4 February 2011 and the latter on 13 May 2011.

During 2011 and 2010, the Group had no investments on which interest expense would be capitalised.

On 27 May 2009 Podravka d.d. has entered into a contract on Interest Rate Swap (IRS) through which was set up variable interest rate (3M EURIBOR) on the level of 2.46%. Agreement on the IRS refers to the long-term debt of the Company at Erste Bank Group in Vienna the amount of EUR 40,000 thousand by the Company contracted 9 October 2008. Agreement on the IRS was concluded for the period 9 July 2009 to 9 October 2014.

NOTE 16 – NET FOREIGN EXCHANGE LOSS

Foreign exchange loss were reported in the consolidated statement of comprehensive income as follows:

	2011	2010
	(in thousands of HRK)	
Borrowings costs	(17,890)	(4,193)
Other loss, net	(173)	(1,749)
	(18,063)	**(5,942)**

NOTE 17 – INCOME TAX

Income tax expense consists of:

	2011	2010
	(in thousands of HRK)	
Current income tax	30,309	22,926
Deferred tax, net	(6,585)	2,336
	23,724	**25,262**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of od 20,3% (2010: 20.3 %) applicable to the Group's result as follows:

	2011	2010
	(in thousands of HRK)	
Profit before taxation	93,153	109,336
Tax calculated at weighted average tax rates applicable to profits in the respective countries	18,910	22,178
Effect of permanent differences, net	18,677	13,813
Effect of tax benefits (research and development, education and other allowances)	(2,641)	(3,045)
Effect of utilised tax loss brought forward	(11,222)	(7,684)
Income tax expense recognised in statement of the comprehensive income	**23,724**	**25,262**

Unused tax loss:	2011	2010
	(in thousands of HRK)	
Unused tax loss	90,855	127,191

The availability of unused tax loss expires as follows:

	(in thousands of HRK)	
Up to 2011	-	23,425
Up to 2012	16,477	27,071
Up to 2013	66,987	67,063
Up to 2014	4,272	4,575
Up to 2015	1,549	5,057
Up to 2016	1,570	-

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

	2011	2010
	(in thousands of HRK)	
Deferred tax liabilities	6,997	7,141
Deferred tax assets	56,022	52,330

In accordance with Croatian tax regulations, by the end of 2011 the Group realised tax loss in the amount of HRK 90,855 thousand (2010: HRK 127,191 thousand), which may be utilised up to 2016 at the latest. Unutilised tax loss are not recognised as deferred tax assets in the consolidated statement of financial position, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

Deferred tax assets arise from the following:

2011	Opening balance	Charged through statement of comprehensive income	Foreign exchange differences	Closing balance
Temporary differences:				
Government subsidies	32,825	(1,367)	(2,888)	28,570
Assets under financial lease	348	(2)	-	346
Property, plant and equipment	89	409	-	498
Intangibles	7,854	8,055	-	15,909
Jubilee awards	2,395	(145)	-	2,250
Termination benefits	2,357	226	4	2,587
Vacation accrual	144	21	5	170
Impairment allowance on inventories	4,065	(69)	-	3,996
Other deferred tax assets – equity investments, future charges	2,253	(557)	-	1,696
	52,330	**6,571**	**(2,879)**	**56,022**

Deferred tax liabilities arise from the following:

2011	Opening balance	Charged through statement of comprehensive income	Foreign exchange differences	Closing balance
Temporary differences:				
Adjustments to non-current assets	(535)	(589)	-	(1,124)
Adjustment of the fair value and carrying amount of assets	(6,606)	733	-	(5,873)
	(7,141)	**144**	**-**	**(6,997)**

Deferred tax assets arise from the following:

2010	Opening balance	Charged through statement of comprehensive income	Foreign exchange differences	Closing balance
Temporary differences:				
Government subsidies	31,179	112	1,534	32,825
Assets under financial lease	106	237	5	348
Property, plant and equipment	97	(8)	-	89
Intangibles	7,854	-	-	7,854
Jubilee awards	2,822	(427)	-	2,395
Termination benefits	1,850	507	-	2,357
Vacation accrual	3,272	(3,128)	-	144
Impairment allowance on inventories	3,494	571	-	4,065
Other deferred tax assets – equity investments, future charges	2,915	(662)	-	2,253
	53,589	**(2,798)**	**1,539**	**52,330**

Deferred tax liabilities arise from the following:

2010	Opening balance	Charged through statement of comprehensive income	Foreign exchange differences	Closing balance
Temporary differences:				
Adjustments to non-current assets	(280)	(260)	5	(535)
Adjustment of the fair value and carrying amount of assets	(7,336)	730	-	(6,606)
	(7,616)	**470**	**5**	**(7,141)**

NOTE 18 –EARNINGS PER SHARE

Basic earnings per share

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

	2011	2010
Net profit attributable to shareholders (in thousands of HRK)	69,281	84,235
Weighted average number of shares	5,242,492	5,242,492
Basic earnings per share (in kunas and lipas)	**13.22**	**16.07**

Diluted earnings per share

Diluted earnings per share were calculated as the basic earnings per share, including the impact of the number of share options granted to employees, of which 54,000 were not exercised (2010: 31,000 options).

	2011	2010
Net profit attributable to shareholders (in thousands of HRK)	69,281	84,235
Weighted average number of shares	5,296,492	5,273,492
Diluted earnings per share (in kunas and lipas)	**13.08**	**15.97**

NOTE 19 – DIVIDEND PER SHARE

On 14 July 2011, the General Assembly of the Company's Shareholders passed a decision on the allocation of the 2010 profit, under which the profit for the year was transferred to cover the loss accumulated in prior years.

NOTE 20 - GOODWILL

(in thousands of HRK)	2011	2010
Cost		
At 1 January	73,969	73,969
Additions	3,697	-
At 31 December	**77,666**	**73,969**
Accumulated impairment loss		
At 1 January	29,676	31,092
Impairment loss recognised during the year	7,134	-
Effect of changes in the foreign exchange rates	(273)	(1,416)
At 31 December	**36,537**	**29,676**
Carrying amount at 31 December	**41,129**	**44,293**

The increase in goodwill in the amount of HRK 3,697 thousand for the year 2011 arose on the acquisition of Agram Pharmacy (Note 41). During 2011, the Group recognised goodwill impairment in the amount of HRK 7,134 thousand (2010: nil) based on the annual impairment test. The goodwill impairment relates to the following: HRK 2,218 thousand in respect of Ital – Ice d.o.o.; HRK 1,324 thousand in respect of Lero d.o.o.; HRK 1,354 in respect of Podravka Lagris a.s., whereas HRK 2,238 thousand relate to the Belupo Group.
The goodwill impairment in respect of the Belupo Group comprises the impairment of the entire goodwill recognized on the acquisition of Derjanović Pharmacy in the amount of HRK 1,829 thousand and a part of goodwill recognized on the acquisition of Kuruc Pharmacy, Koprivnica, and Pharmacy in Crikvenica in the amount of HRK 300 thousand and HRK 109 thousand, respectively.

NOTE 21 – INTANGIBLE ASSETS

	2011	2010
	(in thousands of HRK)	
Cost	568,986	542,889
Accumulated amortization	(298,188)	(234,849)
	270,798	**308,040**

	2011	2010
	(in thousands of HRK)	
Brand	97,494	129,970
Software	91,096	97,238
Intangibles under construction	20,714	18,617
Distribution and other rights	4,719	7,880
Pharmaceutical rights	56,775	54,335
	270,798	**308,040**

(in thousands of HRK)	**Software and licences**	**Distribution rights, registration files use right, know how**	**Brand**	**Intangible assets in progress**	**Total**
Cost					
At 1 January 2010	200,172	111,444	179,817	32,696	524,129
Effect of changes in the foreign exchange rates	357	624	553	2	1,536
Additions	379	-	-	16,966	17,345
Transfers	23,273	7,734	40	(31,047)	-
Eliminated on disposal	(121)	-	-	-	(121)
At 31 December 2010	**224,060**	**119,802**	**180,410**	**18,617**	**542,889**
Accumulated amortisation					
At 1 January 2010	(116,158)	(46,475)	(49,887)	-	(212,520)
Effect of changes in the foreign exchange rates	(341)	(411)	(553)	-	(1,305)
Disposals	48	-	-	-	48
Charge for the year	(10,371)	(10,701)	-	-	(21,072)
At 31 December 2010	**(126,822)**	**(57,587)**	**(50,440)**	**-**	**(234,849)**
Carrying amount at 31 December 2010	**97,238**	**62,215**	**129,970**	**18,617**	**308,040**
Cost					
At 1 January 2011	224,060	119,802	180,410	18,617	542,889
Effect of changes in the foreign exchange rates	(489)	(1,048)	(18)	(103)	(1,658)
Additions	173	-	7,800	17,460	25,433
Acquisition of subsidiaries	342	3,207	-	-	3,549
Transfers	6,871	8,389	-	(15,260)	-
Eliminated on disposal	(1,227)	-	-	-	(1,227)
At 31 December 2011	**229,730**	**130,350**	**188,192**	**20,714**	**568,986**
Accumulated amortisation					
At 1 January 2011	(126,822)	(57,587)	(50,440)	-	(234,849)
Effect of changes in the foreign exchange rates	595	804	17	-	1,416
Acquisition of subsidiaries	(59)	-	-	-	(59)
Disposals	1,207	-	-	-	1,207
Charge for the year	(13,555)	(11,307)	-	-	(24,862)
Impairment of brands and pharmaceutical rights	-	(766)	(40,275)	-	(41,041)
At 31 December 2011	**(138,634)**	**(68,856)**	**(90,698)**	**-**	**(298,188)**
Carrying amount at 31 December 2011	**91,096**	**61,494**	**97,494**	**20,714**	**270,798**

At the end of the reporting period, the Group reassessed the recoverable amount of its brands and determined impairment by HRK 40,275 thousand, impairment of pharmaceutical rights by HRK 766 thousand and also there was SMS brand recognised in the amount of HRK 7,800 thousand (2010: there was no impairment).

The recoverable amount of the cash generating unit has been estimated on the basis of the discounted cash flow model.

The gains/(loss) resulting from the increase/decrease in the value of intangible assets on the reassessment were included in the Statement of comperehensive income under "Other loss" (Note 7).

NOTE 22 – PROPERTY, PLANT AND EQUIPMENT

	2011	2010
	(in thousands of HRK)	
Land and buildings	1,023,386	1,142,837
Equipment	441,383	446,076
Assets under construction	54,880	53,907
	1,519,649	**1,642,820**

(in thousands of HRK)	Land and buildings	Equipment	Assets under construction	Total
Cost				
At 1 January 2010	2,129,714	1,682,767	112,689	3,925,170
Effect of changes in the foreign exchange rate	5,245	3,808	(1,670)	7,383
Additions	4,114	6,819	65,146	76,079
Transfers	56,082	60,892	(116,974)	-
Disposals and retirements	(9,370)	(25,527)	(5,284)	(40,181)
At 31 December 2010	**2,185,785**	**1,728,759**	**53,907**	**3,968,451**
Accumulated depreciation				
At 1 January 2010	(981,180)	(1,232,344)	-	(2,213,524)
Effect of changes in the foreign exchange rate	(1,383)	(3,516)	-	(4,899)
Additions	-	(2,356)	-	(2,356)
Disposals	3,176	26,192	-	29,368
Charge for the year	(63,561)	(70,659)	-	(134,220)
At 31 December 2010	**(1,042,948)**	**(1,282,683)**	**-**	**(2,325,631)**
Carrying amount at 31 December 2010	**1,142,837**	**446,076**	**53,907**	**1,642,820**
Cost				
At 1 January 2011	2,185,785	1,728,759	53,907	3,968,451
Effect of changes in the foreign exchange rate	(5,139)	(3,540)	6	(8,673)
Additions	1,711	11,782	79,682	93,175
Acquisition of subsidiaries	-	722	-	722
Transfers	11,555	63,602	(75,157)	-
Disposals and retirements	(7,794)	(26,695)	(3,558)	(38,047)
Transfer to assets held for sale	(66,472)	-	-	(66,472)
At 31 December 2011	**2,119,646**	**1,774,630**	**54,880**	**3,949,156**
Accumulated depreciation				
At 1 January 2011	(1,042,948)	(1,282,683)	-	(2,325,631)
Effect of changes in the foreign exchange rate	1,626	3,811		5,437
Additions	-	(1,438)	-	(1,438)
Acquisition of subsidiaries	-	(131)	-	(131)
Disposals	5,519	17,215	-	22,734
Charge for the year	(62,605)	(70,021)	-	(132,626)
Transfer to assets held for sale	2,148	-	-	2,148
At 31 December 2011	**(1,096,260)**	**(1,333,247)**	**-**	**(2,429,507)**
Carrying amount at 31 December 2011	**1,023,386**	**441,383**	**54,880**	**1,519,649**

Group buildings and land of net book value of HRK 763,240 thousand (2010: HRK 808,584 thousand) have been mortgaged against the Group borrowings.

As at 16 December 2010, Podravka d.d. and its subsidiaries Belupo d.d., Danica d.o.o., Podravka Polska Sp.z.o.o. and Podravka Lagris as guarantors, made syndicated loan contract with several banks in the amount of EUR 100 million. According to the contract, subsidiaries are guarantors and guarantee for all of the Podravka d.d. obligations. As an insurance instrument, there have been put hypothecation and movables pledge on total property, plant, equipment and total receivables of Belupo d.d. and Danica d.o.o. as well as pledge over shares of Podravka Polska Sp.z.o.o and Podravka Lagris.

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

	2011	2010
	(in thousands of HRK)	
Cost of capitalised finance leases	82,318	80,874
Accumulated depreciation	(21,292)	(16,345)
Net book value	**61,026**	**64,529**

NOTE 23 –SUBSIDIARIES

Name of subsidiary	Country of incorporation	Proportion of ownership interest and voting power held by the Group (%)		Principal activity
		2011	2010	
Subsidiaries in Croatia				
Belupo d.d., Koprivnica	Croatia	100.00	100.00	Production and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	Meet processing and production
Lero d.o.o., Rijeka	Croatia	100.00	100.00	Fruit and vegetable juice and beverage production
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	Ice cream manufacture
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100.00	100.00	Purchase and sale of goods; meal preparation and catering services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	Trade
Subsidiaries in foreign countries				
Lagris a.s., Lhota u Luhačovic	Czeh Rep.	100.00	100.00	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	Seasonings manufacture and sale
Podravka-International Kft, Budapest	Hungary	100.00	100.00	Sale and distribution
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	100.00	Sale and distribution
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	Sale and distribution
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	Sale and distribution
Podravka International, Turska	Turkey	75.00	75.00	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	98.88	98.88	Sale and distribution
Sana d.o.o., Hoče	Slovenia	100.00	100.00	Wafers
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia &	100.00	100.00	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	100.00	Sale and distribution
Podravka-International Inc. Wilmington	SAD	100.00	100.00	Sale and distribution

NOTE 24 – LONG TERM FINANCIAL ASSETS

	2011	2010
	(in thousands of HRK)	
Loans	3,674	7,579
Impairment allowance on loans	(2,500)	(3,332)
Other receivables and deposits	3,149	4,895
	4,323	**9,142**

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

NOTE 25 – INVENTORIES

	2011	2010
	(in thousands of HRK)	
Raw materials and supplies	213,147	222,394
Work in progress	50,870	36,291
Finished goods	255,608	246,637
Trade goods	180,958	186,772
	700,583	**692,094**

In 2011, based on the value adjustment of inventories HRK 198 thousand were credited (2010: HRK 4,687 thousand charged) to which is included in the statement of comprehensive income in line item 'Cost of goods sold-other' (Note 8).

NOTE 26 – TRADE AND OTHER RECEIVABLES

	2011	2010
	(in thousands of HRK)	
Current receivables		
Trade receivables	1,097,799	1,072,197
Less: Provisions for impairment	(124,798)	(125,924)
Net trade receivables	**973,001**	**946,273**
Bills of exchange received	12,162	25,720
Advances to suppliers	1,697	6,111
Loans given	61,197	61,517
Impairment allowance on loans	(61,197)	(61,197)
Restricted deposit	-	45,788
Other receivables	71,180	59,331
Total current receivables	**1,058,040**	**1,083,543**

In 2011 the restricted deposit was utilised to settle the liabilities under the Settlement Agreement between Podravka d.d., OTP Bank and MOL.

With the consent of the Supervisory Board, the Management Board of Podravka d.d. agreed with OTP Bank and MOL the final price difference and paid to MOL, as the Factor, HRK 49,269 thousand (EUR 6,576,954.00), in addition to the previously paid deposit in the amount of HRK 46,446 thousand (EUR 6,200,000.00) and accrued interest in the amount of HRK 1,668 thousand (EUR 225,397.00), which are included in investment income.

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

	2011	2010
	(in thousands of HRK)	
At 1 January	125,924	115,873
Increase	13,230	21,231
Amounts collected	(7,710)	(2,927)
Written off as uncollectible	(6,646)	(8,253)
At 31 December	**124,798**	**125,924**

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:

	2011	2010
	(in thousands of HRK)	
0-90 days	235,665	238,461
91-180 days	52,416	75,223
181-360 days	28,891	26,940
	316,972	**340,624**

Other receivables at 31 December were as follows:

	2011	2010
	(in thousands of HRK)	
Net VAT receivable	34,940	29,700
Prepaid expenses	23,528	18,226
Receivables in respect of interest accrued on given loans	10,974	10,974
Impairment allowance on loan interest receivable	(10,974)	(10,974)
Other receivables under forced collection proceedings	57,200	65,000
Impairment allowance on other financial receivables under forced collection proceedings	(57,200)	(65,000)
Other financial receivables in respect of guarantees paid	30,356	30,556
Impairment allowance on other financial receivables in respect of guarantees paid	(30,356)	(30,556)
Past due long-term loan receivables	1,250	1,381
Impairment allowance on past due long-term loan receivables	(1,250)	(1,381)
Prepaid income taxes	2,816	3,367
Receivables from employees	2,706	2,482
Other receivables – gross	7,190	6,592
Impairment allowance for other receivables	-	(1,036)
Total current receivables	**71,180**	**59,331**

In 2011, there were no other receivables for which impairment allowance would be recognised within 'Selling and distribution costs', that is, included in expenses analysed by nature.

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

	2011	2010
	(in thousands of HRK)	
Investments in:		
Investment funds	559	14,796
	559	**14,796**

Movements during the year are as follows:

	2011	2010
	(in thousands of HRK)	
Opening net book value	14,796	22,321
Additions	-	10,000
Disposals	(13,260)	(15,876)
Effect of remeasurement at fair value	(977)	(1,649)
Closing net book value	**559**	**14,796**

NOTE 28 – CASH AND CASH EQUIVALENTS

	2011	2010
	(in thousands of HRK)	
Cash with banks	120,339	132,945
Short-term deposits – up to 3 months	17,045	13,163
Cash in hand	625	546
Cheques, deposits and securities	132	115
Restricted cash	7,819	5,594
	145,960	**152,363**

The restricted cash balance in the amount of HRK 7,819 thousand (2010: HRK 5,594 thousand) relates to moneys paid to the Croatian Health Insurance Fund (HZZO) in respect of advertising ethics insurance. Pursuant to the Agreement on Ethical Advertising of Pharmaceuticals, HZZO undertakes to refund the cash after Belupo d.d. has reported all the costs incurred in the promotion and advertising of pharmaceuticals.

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

	2011	2010
	(in thousands of HRK)	
Lero- building	34,109	-
Lero- building land Vežica	15,689	-
Property at the subsidiary Podravka Kft, Budapest	2,992	3,666
Property at Trg bana J. Jelačića 16, Koprivnica	1,952	1,952
Property at A. Starčevića 29, Koprivnica	1,033	3,150
Podravka d,o,o,, Podgorica - land	1,882	-
	57,657	**8,768**

In 2011 the long-term assets of Lero d.o.o. were reclassified to non-current assets held for sale, upon which impairment was recognised in the amount of HRK 14,525 thousand. The reclassification was performed because, in 2011, production at Lero d.o.o. was discontinued on the basis of the decision of the Management Board of Podravka d.d. to sell the properties at Lero d.o.o. during 2012, and steps are being taken to complete the sale.

The properties at subsidiary Podravka Kft., Budapest, remained unsold during 2011 because of unfavourable market conditions. The Management Board has no intent to put those properties into use for business purposes and remains committed to the plan to sell them, along with continuing its activities to complete the sale of those assets in 2012.

During 2011 the properties located at the addresses A. Starčevića 29 and Trg bana Jelačića 16 were not sold because of extremely unfavourable conditions on the market. The Management Board has no intent to put those properties into use for business purposes and it plan remains to take steps to complete their sale during 2012.

In 2011, based on an independent appraisal, the property at the address A. Starčevića 29, Korpivnica, was impaired, with the impairment loss recognised in the amount of HRK 2,117 thousand.

Podravka Podgorica d.o.o. received land as a compensation for its receivables in the amount of EUR 250 thousand owed by its customer Plus Commerce, which, following the recognition, the company classified as assets held for sale because the Management Board is actively taking steps to complete the sale of the asset in 2012.

The loss on the impairment of investments and properties are presented in the Statement of comprehensive income under "Other loss" (Note 7).

NOTE 30 – SHARE CAPITAL

	2011	2010
	(in thousands of HRK)	
Ordinary shares	1,626,001	1,626,001
Capital gains	24,569	22,337
Own shares	(67,604)	(67,604)
	1,582,966	**1,580,734**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)		*(in thousands of HRK)*		
At 1 January 2010	**5,242,492**	**1,626,001**	**25,294**	**(67,604)**	**1,583,691**
Fair value of share based payments	-	-	(2,957)	-	(2,957)
At 31 December 2010	**5,242,492**	**1,626,001**	**22,337**	**(67,604)**	**1,580,734**
At 1 January 2011	**5,242,492**	**1,626,001**	**22,337**	**(67,604)**	**1,580,734**
Fair value of share based payments	-	-	2,232	-	2,232
At 31 December 2011	**5,242,492**	**1,626,001**	**24,569**	**(67,604)**	**1,582,966**

As at 31 December 2011, the Group's share capital amounted to HRK 1,626,001 thousand, distributed among 5,420,003 shares (2010: 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 consolidated financial statements.

NOTE 31 – RESERVES

	2011	2010
	(in thousands of HRK)	
Legal reserves	46,279	45,256
Other reserves	37,876	35,207
Reserves for treasury shares	35,345	35,345
Translation reserve	145	11,129
	119,645	**126,937**

(in thousands of HRK)	Legal reserves	Other reserves	Translation reserve	Reserves for treasury shares	Total
At 1 January 2010	45,168	31,557	(2,245)	35,345	109,825
Transfer to reserves	88	3,650	-	-	3,738
Exchange differences	-	-	13,374	-	13,374
At 31 December 2010	**45,256**	**35,207**	**11,129**	**35,345**	**126,937**
At 1 January 2011	45,256	35,207	11,129	35,345	126,937
Transfer to reserves	1,023	2,669	-	-	3,692
Exchange differences	-	-	(10,984)	-	(10,984)
At 31 December 2011	**46,279**	**37,876**	**145**	**35,345**	**119,645**

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

According to the decision of the General Assemblies in 2011, HRK 1,023 thousand have been appropriated to legal reserves. In statutory and other reserves in 2011 have been appropriated HRK 2,669 thousand.

According to the decisions of the General Assemblies in 2010, HRK 88 thousand have been appropriated to legal reserves. In statutory and other reserves in 2010 have been appropriated HRK 3,650 thousand.

NOTE 32 – ACCUMULATED LOSS

	31/12/2011	31/12/2010
	(in thousands of HRK)	
Accumulated loss	(41,611)	(107,200)

	2011	2010
At 1 January	(107,200)	(188,781)
- transfer to legal and other reserves	(3,692)	(2,654)
- profit for the year	69,281	84,235
At 31 December	**(41,611)**	**(107,200)**

NOTE 33 – NON-CONTROLLING INTERESTS

	2011	2010
	(in thousands of HRK)	
Balance at 1 January	34,347	34,361
Exchange differences	292	147
Share in the profit / (loss) for the year	148	(161)
Balance at 31 December	**34,787**	**34,347**

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

	2011	2010
	(in thousands of HRK)	
Bonds issued	-	371,100
	-	**371,100**

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.

At 31 December 2010, the liabilities for bonds issued are shown within short-term liabilities. The bonds were fully redeemed on 13 May 2011.

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

	2011	2010
	HRK	HRK
	%	%
Bonds issued	5.32	5.32

NOTE 35 – BORROWINGS

	2011	2010
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	666,124	247,749
Banks in foreign countries	202,938	283,578
Finance lease	28,554	27,630
	897,616	**558,957**
Current borrowings		
Banks in Croatia	309,083	336,830
Banks in foreign countries	172,347	240,060
Finance lease	4,303	4,306
Other	-	495
	485,733	**581,691**
Total borrowings	**1,383,349**	**1,140,648**

Bank borrowings in the amount of HRK 1,226,893 thousand (HRK 1,104,893 thousand of long term borrowings and HRK 122,000 thousand of short term borrowings), (2010: HRK 840,717 thousand) are secured by mortgages over the Group land and buildings (Note 22).

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2011	2010	2011	2010	2011	2010
			(in thousands of HRK)			
Up to 1 year	6,830	6,856	2,527	2,550	4,303	4,306
Between 1 and 5 years	19,094	22,255	6,660	8,702	12,434	13,553
After 5 years	19,345	18,164	3,225	4,087	16,120	14,077
Less: future finance charges	**(12,412)**	**(15,339)**	**12,412**	**15,339**	**32,857**	**31,936**
Present value of minimum lease payments	**32,857**	**31,936**			**32,857**	**31,936**

	2011	2010
Included in the consolidated financial statements within:		
Current borrowings	4,303	4,306
Non-current borrowings	28,554	27,630
	32,857	**31,936**

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

	2011	2010
	(in thousands of HRK)	
6 months or less	1,027,633	401,386
6 – 12 months	121,092	144,835
1 – 5 years	234,624	594,427
	1,383,349	**1,140,648**

If the interest rate on borrowings at variable rates increases to 6.09 on average, the liability in respect of interest would increase by HRK 5,255 thousand (2010: for an interest rate of 4.52 %, the interest payable would increase by HRK 3,079 thousand).

The maturity of non-current borrowings is as follows:

	2011	2010
	(in thousands of HRK)	
Between 1 and 2 years	216,910	366,645
Between 2 and 5 years	658,296	176,909
Over 5 years	22,410	15,403
	897,616	**558,957**

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

	2011			2010		
	HRK	EUR	Other	HRK	EUR	Other
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	8.80	6.19	-	7.90	5.28	-
Banks in foreign countries	-	4.35	9.00	-	3.55	4.94
Finance lease	-	7.32	4.39	-	6.46	-
Other	-		-	-		-
Current borrowings						
Banks	5.79	-	4.33	6.72	-	5.39
Other		-	-	5.00	-	-

During 2011, Podravka d.d. utilised the remaining balance of the syndicated long-term loan in the amount of EUR 67,845 thousand. The loan was approved in the amount of EUR 100,000 thousand in tranches A, B and C, for use in foreign currency and HRK with a repayment period of 5 years and the interest rate for foreign currency tranche A and B at three-month EURIBOR + 4.75% and for the domestic tranche C at Quarterly ZIBOR + 4.75%). In 2011, Podravka d.d. utilised the syndicated loan as follows: HRK 130,000 thousand to redeem comercial papers and HRK 375,000 thousand to redeem bonds. In addition, a short-term liquidity loan of HRK 20,000 thousand was utilised. Existing long-term loans were repaid in accordance with the amortization schedule for the current year. During 2011 Belupo d.d. utilised two loans, which were as follows: a loan from Raiffeisenbank Austria, Zagreb, in the amount of HRK 46,576 thousand and a loan from Splitska banka, Split, in the amount of HRK 30,000 thousand. The Raiffeisenbank Austria loan was utilised to repay the entire loan provided by Raiffeisen Zentralbank Vienna. In late 2011 Raiffeisenbank Austria, Zagreb, granted to Danica a long-term investment loan in the amount of HRK 7,500 thousand out of the HBOR Model A+ programme, out of which HRK 4,598 thousand were used.

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

	Carrying amounts		Fair values	
	2011	2010	2011	2010
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Banks in Croatia	666,124	247,749	666,041	247,939
Banks in foreign countries	202,938	283,578	202,938	283,578
Finance lease	28,554	27,630	28,554	27,630
	897,616	**558,957**	**897,533**	**559,147**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 6.08 % (2010: 5.05%).

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:

	2011	2010
	(in thousands of HRK)	
HRK	346,345	341,286
EUR	929,697	690,307
Other currencies	107,307	109,055
	1,383,349	**1,140,648**

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:

	2011	2010
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	110,801	530,972
	110,801	**530,972**

These comprise undrawn long-term facitlities available for working capital and fixed asset purposes, a short-term revolving loan and unutilised credit lines for opening letters of credit for goods with deferred payment.

NOTE 36 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Vacation accruals	Regular termination benefits	Termination benefits - incentives	Legal actions	Total
Analysis of total provisions as at 31 December 2010						
Non-current	10,110	-	12,321	-	7,606	30,037
Current	2,143	15,539	190	3,386	2,596	23,854
At 1 January 2011	**12,253**	**15,539**	**12,511**	**3,386**	**10,202**	**53,891**
Charged/(credited) to profit or loss:						
Increase of provisions	1,833	13,622	1,178	1,538	4,138	22,309
Utilised during the year	(2,082)	(12,195)	-	(3,386)	(739)	(18,402)
At 31 December 2011	**12,004**	**16,966**	**13,689**	**1,538**	**13,601**	**57,798**
Analysis of total provisions as at 31 December 2011:						
Non-current	9,814	-	13,521	-	10,991	34,326
Current	2,190	16,966	168	1,538	2,610	23,472
	12,004	**16,966**	**13,689**	**1,538**	**13,601**	**57,798**

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 2011.

The current amount of employee benefits includes HRK 16,966 thousand in respect of unused vacation days, HRK 1,706 thousand in respect to regular termination benefits and retirement incentives, and HRK 2,190 thousand in respect of jubilee benefits that will be paid in 2012.

Legal actions

This provision relates to certain legal proceedings initiated against the Group. The provision expense is included in the consolidated 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 2011.

NOTE 37 – TRADE AND OTHER PAYABLES

	2011	2010
	(in thousands of HRK)	
Trade payables	535,729	508,963
Other liabilities	175,060	291,628
	710,789	**800,591**

At 31 December 2011 and 31 December 2010, 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:

	2011	2010
	(in thousands of HRK)	
Salaries and other benefits to employees	59,019	61,340
Accrued expenses	39,700	36,873
Deferred lease income	31,456	34,323
Taxes, contributions and other duties payable	15,983	10,570
Packaging waste disposal fee payable	11,160	7,030
Accrued interest not yet due on bonds and borrowings	10,519	19,312
Advances received	2,509	2,704
Dividends payable	685	687
Accrued liabilities per share option contract	-	113,940
Other liabilities	4,029	4,849
	175,060	**291,628**

In 2011, the debt under option contracts was closed in accordance with the Settlement Agreement entered into by Podravka d.d., OTP Bank and MOL (Note 26).

NOTE 38 – RETIREMENT BENEFIT PLAN

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

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

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

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2011 by the actuaries of the firm Aktuarijat Sanjković d.o.o. At 31 December 2011, the Group has a provision of HRK 12,004 thousand for jubilee awards and HRK 13,689 thousand for regular retirement benefits.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2010 by the actuaries of the firm Aktuarijat Sanjković d.o.o. At 31 December 2010, the Group has a provision of HRK 12,253 thousand for jubilee awards and HRK 12,511 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:

	2011	**2010**
Discount rate	7.2%	6.5%
Fluctuation rate	1.56%-12.98%	2.08-11.88%
Average expected remaining working lives (in years)	21	22

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

	2011	**2010**
	(in thousands of HRK)	
Current service cost	1,003	1,038
Interest expense	1,508	1,358
Net actuarial (gain) / loss for the year	(91)	568
Benefits paid	(2,139)	(2,401)
Other actuarial adjustments	648	70
	929	**633**

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

	2011	**2010**
	(in thousands of HRK)	
Present value of jubilee awards	12,004	12,253
Present value of termination benefits	13,689	12,511
Obligation reported in the consolidated statement of financial position	**25,693**	**24,764**

Of which by maturity:

	2011	**2010**
	(in thousands of HRK)	
Long-term	23,335	22,431
Short-term	2,358	2,333
	25,693	**24,764**

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

	2011	2010
	(in thousands of HRK)	
At 1 January	24,764	24,131
Current service cost	1,003	1,038
Interest expense	1,508	1,358
Actuarial (gains) / loss	(91)	568
Benefits paid	(2,139)	(2,401)
Other actuarial adjustments	648	70
At 31 December	**25,693**	**24,764**

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:

	2011	2010
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	1,383,349	1,511,748
Cash and cash equivalents	(145,960)	(152,363)
Net debt	1,237,389	1,359,385
Equity	1,661,000	1,600,471
Net debt to equity ratio	74,50%	84.94%

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

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

39.2. Categories of financial instruments

	2011	2010
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,158,405	1,185,018
Held-to-maturity investments – bills of exchange	12,162	25,720
Financial assets at fair value through profit or loss	559	14,796
Financial liabilities at amortised cost		
Finance lease obligations	32,857	30,745
Borrowings	1,347,185	1,105,496
Trade payables and other liabilities	689,309	780,996
Financial liabilities at fair value		
Financial liabilities at fair value	-	371,100
Interest rate swap liabilities	3,307	4,137

39.3. 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. The Company is in compliance with the changes in variable interest rates entered into a contract on Interest Rate Swap.

39.4. Market risk

Commodity risk management (price risk)

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

The Group operates a centralised Purchase function. 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 48.0% (2010: 49%) of its revenue on the domestic market, whereas around 52.0% (2010: 51%) 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.

39.5. 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	
	2011	**2010**	**2011**	**2010**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	1,122,180	851,342	158,898	271,162
Bosnia and Herzegovina (BAM)	97,804	99,456	141,477	118,260
Poland (PLN)	20,734	36,632	59,009	72,897
USA (USD)	14,787	12,944	7,063	9,516
Other currencies	81,164	68,783	171,833	114,417

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 1.4 % increase (2010: a 0.5 % increase) 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	
	2011	**2010**	**2011**	**2010**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	10,287	2,763	823	-
Loss	-	-	-	81

	BAM impact		PLN impact	
	2011	**2010**	**2011**	**2010**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	-	-	3,032	-
Loss	1,694	89	-	480

	Impact of other currencies	
	2011	**2010**
	(in thousands of HRK)	
Profit	-	270
Loss	1,683	-

The exposure to the fluctuations in exchange rates by 1.42% is mainly attributable to the borrowings, trade payables and trade receivables denominated in Euro (EUR), in Polish Zloty (PLN), Convertible Marks (BAM) and US Dollar (USD).

39.6. 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. The Group uses interest rate swap for managin interest rate risk (Note 15).

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 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 2011 would have changed by HRK 5,255 thousand (2010: 3,079 thousand).

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

39.7. 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.

39.8. 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.

39.9. Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the 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 presented in the consolidated statement of financial position at the period end.

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*			*(in thousands of HRK)*	
2011						
Non-interest bearing	-	491,742	152,939	12,247	17,120	689,309
Interest bearing	5.95	20,642	124,790	1,077,710	82,206	1,709,362
		512,384	**277,729**	**1,089,957**	**99,326**	**2,398,671**
2010						
Non-interest bearing	-	476,003	116,091	11,939	19,987	767,160
Financial liabilities at fair value	5.32	-	-	-	-	371,100
Interest bearing	5.31	45,107	233,405	764,376	38,761	1,421,926
		521,110	**349,496**	**776,315**	**58,748**	**2,560,186**

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 378,443 thousand (2010: HRK 391,278 thousand) and amounts due to employees in the amount of HRK 59,000 thousand (2010: HRK 52,375 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 17,120 thousand (2010: HRK 19,987 thousand).

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

The tables below detail the remaining contractual maturities of the Group's assets presented on the consolidated 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)*	
2011							
Non-interest bearing	-	744,292	135,536	105,592	34,820	-	1,020,240
Interest bearing	0.77	147,181	15	455	3,236	-	150,887
		891,473	**135,551**	**106,047**	**38,056**	**-**	**1,171,127**
2010							
Non-interest bearing	-	606,651	259,681	147,576	4,577	-	1,018,485
Interest bearing	0.63	149,731	47,766	6,745	2,825	14	207,081
		756,382	**307,447**	**154,321**	**7,402**	**14**	**1,225,566**

39.10. Fair value of financial instruments

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

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

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less portion repaid.
Fair value is determined as the amount at which a financial instrument can be exchanged 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 2011, 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.

39.10.1 Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
		(in thousands of HRK)		
Financial assets at FVTPL				
Investment in investment funds	559	-	-	559
Total	**559**	**-**	**-**	**559**
Financial liabilities at FVTPL				
Interest rate swap	-	3,307	-	3,307
Total	**-**	**3,307**	**-**	**3,307**

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
		(in thousands of HRK)		
Financial assets at FVTPL				
Investment in investment funds	14,796	-	-	14,796
Total	**14,796**	**-**	**-**	**14,796**
Financial liabilities at FVTPL				
Bonds	371,100	-	-	371,100
Option on company shares	113,940	-	-	113,940
Interest rate swap	-	4,137	-	4,137
Total	**485,040**	**4,137**	**-**	**489,177**

NOTE 40 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares were granted to Podravka d.d. and Belupo d.d. Management Board president and members. 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 in the period from 2008 till 2011 can be exercised after minimum one and maximum three years after the year in which they were granted.

All the terms and conditions apply, unless circumstances arise as provided in each of the 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 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 8 – granted 31/12/2008	4,000	2008	2011	361.14	261.00
Series 10 – granted 31/12/2010	27,000	2010	2013	308.81	302.68
Options granted during 2011					
Series 31/12/2011	27,000	2011	2014	301.05	231.00

Inputs

	Series 8	Series 10	Series 11
Grant date share price	261.00	302.68	231.00
Exercise price	361.14	308.81	301.05
Expected volatility	25.49%	33.84%	31.63%
Option life	3.0	3.0	3.0
Risk-free interest rate	6.833%	5.625%	5.275%

Overview of option balances and exercised options

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	31,000	315.56	63,900	338.95
Granted during the year	27,000	301.05	27,000	308.81
Forfeited during the year	(4,000)	361.14	(59,900)	337.47
Exercised during the year	-	-	-	-
Balance at end of year	**54,000**	**304.93**	**31,000**	**315.56**

Outstanding at the year end

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 31/12/2010	27,000	31/12/2010	31/12/2013	308.81	302.68
Series 31/12/2011	27,000	31/12/2011	31/12/2014	301.05	231.00

As at 31 December 2011, there are 54,000 of outstanding options (2010: 31,000 options). In 2011, 4,000 exercisable options were not exercised (2010: 59,900 options). There were no exercised options in 2011 (2010: 0 options).
The weighted average exercise price of outstanding options at the year end is HRK 304.93 (2010: HRK 315.56).
The weighted average remaining validity of options is 913 days at 31 December 2011 (2010: 1,002 days).

NOTE 41- ACQUISITION OF A SUBSIDIARY

41.1. SUBSIDIARY ACQUIRED

On 1 July 2011, Pharmacies Deltis Pharm, fully owned by Belupo d.d., acquired Pharmacy Agram, Zagreb.

Name of the Company	Principal activity	Date of acquisition	Share acquired (in %)	Acquisition cost
Pharmacy Agram, Zagreb	Pharmacy	01.07.2011.	100	7,700
				7,700

41.2. ANALYSIS OF NET ASSETS AND LIABILITIES ACQUIRED

(in thousands of HRK)

	Carrying amount	Adjustment	Fair value
Property, plant and equipment	592	-	592
Intangible assets	283	3,207	3,490
Inventories	965	-	965
Trade receivables	2,489	-	2,489
Cash and cash equivalents	87	-	87
Short-term liabilities	(3,620)	-	(3,620)
Net assets acquired	**796**	**3,207**	**4,003**
Goodwill			**3,697**
Trošak stjecanja			**7,700**

41.3. NET CASH PAID ON ACQUISITION

	(in thousands of HRK)
Cash consideration	**6,930**
Less: cash and cash equivalents acquired	**(87)**
	6.843

The total cost of acquiring Pharmacy Agram amounted to HRK 7,700 thousand, of which HRK 6,930 thousand were paid up to 31 December 2011. Pursuant to the underlying acquisition agreement, the remaining HRK 770 thousand are due and payable on 31 March 2012.

41.4. GOODWILL ARISEN ON ACQUISITION

	(in thousands of HRK)
Total consideration paid	7,700
Net assets acquired	(4,003)
Non-controlling interests	-
Goodwill	**3,697**

41.5. IMPACT OF THE ACQUISITION ON THE GROUP PERFORMANCE

The 2011 profit includes HRK 143 thousand in respect of the profits generated by the acquired pharmacies.

Had the business combinations been effectively completed on 1 January 2011, the Group's revenue from continuing operations and the profit from continuing operations would have amounted to HRK 3,629,021 thousand and HRK 69,448 thousand, respectively. In the opinion of the Management Board, the amounts initially accounted for reflect the current performance levels on an annual basis, whereas revenues are expected to increase in the future periods, along with the related positive impact on the Group's profit.

In arriving at the revenue and profit figures of the Group for the purpose of initial accounting (assuming that the business combinations were completed on 1 January 2011), the following facts were used:

- depreciation of plant and equipment was determined by reference to the fair value on initial accounting of the business combination, rather than on the basis of the carrying amounts recognised in the pre-acquisition financial statements;
- borrowing costs incurred for financing purposes were determined by reference to the credit rating, debt and equity of the Group subsequent to the business combination.

NOTE 42– RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries are eliminated through consolidation and are not presented in this Note.

	2011	2010
EXPENSES	*(in thousands of HRK)*	
Remuneration to the Management Board members and executives		
Salaries	50,705	50,359
Share options through statement of comprehensive income	2,232	(2,957)
	52,937	**47,402**

NOTE 43 – CONTINGENT LIABILITIES

	2011	2010
	(in thousands of HRK)	
Legal actions	1,111	4,338
Agreed with suppliers of fixed assets not yet realised	36,366	6,419
Guarantees and warranties given outside the Group	14,559	14,376
	52,036	**25,133**

With respect to other legal proceedings and guarantees granted, contingent liabilities have not been recognised in the consolidated statement of financial position as at 31 December, as the Management estimated that as at 31 December 2011 and 2010 no contingent liability will arise for the Group.

NOTE 44 – COMMITMENTS

In 2011, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 36,366 thousand (2010: HRK 6,419 thousand), which are not yet realised or recognised in the consolidated 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:

	2011	2010
	(in thousands of HRK)	
Not later than 1 year	22,550	32,614
Later than 1 year and not later than 5 years	27,023	23,193
	49,573	**55,807**

NOTE 45 – SUBSEQUENT EVENTS

On 2 January 2012 a fire broke out in the plastic packaging, raw and processed materials warehouse of the Studenac plant in Lipik, in which the warehouse and all the inventories therein were destroyed. The fire partly spread to the production hall and the finished-product warehouse. All the damaged inventories were insured, and the damage has been estimated at HRK 20,000 thousand.

NOTE 46 – APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Management Board and authorized for issue on 21 March 2012.

Zvonimir Mršić

President of the Management Board