PODRAVKA d.d. and Its Subsidiaries,
Koprivnica

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

CONTENTS

RESPONSIBLITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

In preparing those 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

Zvonimir Mršić

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 21 March 2012

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

We have audited the accompanying consolidated financial statements of Podravka d.d., Koprivnica ('the Company') and its subsidiaries ('the Group'), which comprise the consolidated statement of financial position as at 31 December 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.

INDEPENDENT AUDITOR'S REPORT (continued)

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.

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2011

(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)*

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Supervisory Board members in 2010:

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)*

- 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.

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

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.

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

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),

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

2.2 Standards and Interpretations in issue not yet adopted (continued)

- **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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. Basis of consolidation

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

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Non-current assets held for sale

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

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

3.7. Revenue recognition

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

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

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

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

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

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

(b) Sales of products and goods – retail

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Revenue recognition (continued)

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

(f) Government subsidies

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Leases (continued)

Sale and leaseback transactions (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Share-based payments

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

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

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

3.12. 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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Taxation (continued)

Current and deferred tax for the period

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

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

Value added tax (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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Employee benefits (continued)

(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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25. Financial assets (continued)

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

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25. Financial assets (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25. Financial assets (continued)

Impairment of financial assets (continued)

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.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

Other financial liabilities

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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

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**

NOTE 5 – SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

The Culinary segment comprises the following product groups: Food Seasoning, Podravka Meals, Condiments, Vegetable Products, and Tomato Products.

The 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**

NOTE 5 – SEGMENT INFORMATION (continued)

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.

Podravka Group

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.

NOTE 5 – SEGMENT INFORMATION (continued)

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)**

NOTE 7 – OTHER LOSS, NET (continued)

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

NOTE 17 – INCOME TAX (continued)

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**

NOTE 17 – INCOME TAX (continued)

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**

NOTE 21 – INTANGIBLE ASSETS (continued)

(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**

NOTE 21 – INTANGIBLE ASSETS (continued)

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**

NOTE 22 – PROPERTY, PLANT AND EQUIPMENT (continued)

(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**

NOTE 22 – PROPERTY, PLANT AND EQUIPMENT (continued)

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	Czech 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.	Australia	98.88	98.88	Sale and distribution
Sana d.o.o.. Hoče	Slovenia	100.00	100.00	Wafers
Podravka-International s.r.l..	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.	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).

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

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**

NOTE 35 – BORROWINGS (continued)

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

	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 Raiffesenbank 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.

NOTE 35 – BORROWINGS (continued)

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

NOTE 38 – RETIREMENT BENEFIT PLAN (continued)

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.

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

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.

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

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.

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.5. Foreign exchange risk management (continued)

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 rates.

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.6. Interest rate risk management (continued)

Interest rate sensitivity analysis (continued)

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.

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.9. Liquidity risk management (continued)

Liquidity and interest rate tables (continued)

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2011							
Non-interest bearing	-	491,742	152,939	15,261	12,247	17,120	689,309
Interest bearing	5.95	20,642	124,790	404,014	1,077,710	82,206	1,709,362
		512,384	**277,729**	**419,275**	**1,089,957**	**99,326**	**2,398,671**
2010							
Non-interest bearing	-	476,003	116,091	143,140	11,939	19,987	767,160
Financial liabilities at fair value	5.32	-	-	371,100	-	-	371,100
Interest bearing	5.31	45,107	233,405	340,277	764,376	38,761	1,421,926
		521,110	**349,496**	**854,517**	**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.

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.9. Liquidity risk management (continued)

Liquidity and interest rate tables (continued)

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.

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.10. Fair value of financial instruments (continued)

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%

NOTE 40 – SHARE-BASED PAYMENTS (continued)

Employee share options (continued)

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.

NOTE 41- ACQUISITION OF A SUBSIDIARY

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

Zvonimir Mršić

President of the Management Board