PODRAVKA d.d., Koprivnica

Unconsolidated Financial Statements
for the year ended 31 December 2010
Together with Independent Auditor's Report

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RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

Miroslav Vitković

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 10 March 2011

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

We have audited the accompanying unconsolidated financial statements of Podravka d.d., Koprivnica ('the Company'), which comprise the unconsolidated statement of financial position as at 31 December 2010, and the related unconsolidated statement of comprehensive income, unconsolidated statements of changes in shareholders' equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the unconsolidated financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the unconsolidated 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, except for the effect of the matters discussed in the preceding two paragraphs, if any, the accompanying unconsolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2010, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to the fact that the Company has prepared these unconsolidated financial statements under the Croatian laws and regulations and that the investments in subsidiary and associated undertakings have been presented in these unconsolidated financial statements at cost. In addition, the Company has prepared separate consolidated financial statements for Podravka d.d. and its subsidiaries, dated 10 March 2011. For a better understanding of the Group as a whole, the consolidated financial statements should be read in conjunction with these financial statements.

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor

10 March 2011

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	**Notes**	**2010**	**2009** As restated
Sales	5	1,789,333	1,901,137
Cost of goods sold	8	(1,176,611)	(1,256,702)
Gross profit		**612,722**	**644,435**
Investment income	6	43,613	51,049
Other losses, net	7	(51,466)	(432,950)
General and administrative expenses	9	(145,488)	(194,779)
Selling and distribution costs	10	(239,564)	(267,615)
Marketing expenses	11	(125,795)	(146,794)
Other expenses	12	(1,010)	(9,175)
Finance costs	15	(80,930)	(77,211)
Profit/(loss) before tax		**12,082**	**(433,040)**
Income tax expense	17	(1,155)	7,509
Net profit/(loss) for the year		**10,927**	**(425,531)**
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		**10,927**	**(425,531)**
Earnings/(loss) per share:	18		
- Basic		(2.08)	(81.15)
- Diluted		(2.07)	(80.56)

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

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	**Notes**	**31/12/2010**	**31/12/2009**	**01/01/2009**
			As restated	As restated
ASSETS				
Non-current assets				
Intangible assets	20	169,978	169,728	208,464
Property, plant and equipment	21	957,032	1,000,627	1,066,249
Investments in subsidiaries	22	532,253	531,707	531,692
Deferred tax assets	17	15,369	16,524	9,015
Long term financial assets	23	166,851	224,043	270,033
Total non-current assets		**1,841,483**	**1,942,629**	**2,085,453**
Current assets				
Inventories	24	323,738	285,185	296,789
Trade and other receivables	25	725,583	792,789	866,652
Financial assets at fair value through profit and loss	26	4,792	22,321	23,416
Cash and cash equivalents	27	75,365	77,582	371,086
		1,129,478	1,177,877	1,557,943
Long term assets held for sale	28	5,102	-	-
Total current assets		**1,134,580**	**1,177,877**	**1,557,943**
Total assets		**2,976,063**	**3,120,506**	**3,643,396**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	29	1,580,470	1,582,982	1,587,356
Reserves	30	43,278	42,194	32,372
Accumulated losses	31	(454,662)	(465,589)	(30,236)
Total equity		**1,169,086**	**1,159,587**	**1,589,492**
Non-current liabilities				
Financial liabilities at fair value through profit and loss	32	-	336,300	318,750
Long-term borrowings	33	516,919	385,519	468,335
Provisions	34	20,567	19,263	18,302
Total non-current liabilities		**537,486**	**741,082**	**805,387**
Current liabilities				
Trade and other payables	35	517,025	651,367	606,233
Financial liabilities at fair value through profit and loss	32	371,100	-	-
Short-term borrowings	33	368,735	556,786	633,467
Provisions	34	12,631	11,684	8,817
Total current liabilities		**1,269,491**	**1,219,837**	**1,248,517**
Total liabilities		**1,806,977**	**1,960,919**	**2,053,904**
Total liabilities and shareholders' equity		**2,976,063**	**3,120,506**	**3,643,396**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	**Notes**	**Share capital**	**Reserves**	**Accumulated loss**	**Total**
Balance at 1 January 2009	29,30,31	**1,587,356**	**32,372**	**(30,236)**	**1,589,492**
Net loss for the year as originally reported		-	-	(332,599)	(332,599)
Effect of correction of the option on company shares	3.3.	-	-	(92,932)	(92,932)
Net loss for 2009 after restatement		-	-	(425,531)	(425,531)
Purchase of treasury shares		(6,390)	-	-	(6,390)
Fair value of share based payments		2,016	-	-	2,016
Transfer to other and legal reserves		-	9,822	(9,822)	-
Balance at 31 December 2009	29,30,31	**1,582,982**	**42,194**	**(465,589)**	**1,159,587**
Net profit of the year		**-**	**-**	**10,927**	**10,927**
Fair value of share based payments		(2,512)	-	-	(2,512)
Transfer to other and legal reserves		**-**	1,084	**-**	1,084
Balance at 31 December 2010		**1,580,470**	**43,278**	**(454,662)**	**1,169,086**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	**2010**	**2009** As restated
Net profit/(loss) for the year	**10,927**	**(425,531)**
Tax expense/(income)	1,155	(7,509)
Depreciation	85,772	86,857
(Gains)/losses on disposal of non-current assets	(5,087)	8,544
Value adjustment of current assets	10,568	23,795
Value adjustment of non-current assets	-	46,470
Value adjustment of investment	1,653	5,996
Value adjustment of capital (gains)/loss	(2,512)	2,016
Value adjustment of liabilities at fair value through profit or loss	34,157	16,907
Long-term provisions	1,304	961
Interest received	(25,632)	(32,250)
Interest paid	72,891	89,603
Unrealized losses on Swap contract	4,137	-
Value adjustment of receivables for loans and guarantees	-	263,113
Loss on option related contract	21,008	92,932
Effect of changes in foreign exchange rates	3,586	(4,374)
Other items not affecting cash	358	110
Changes in working capital:		
(Increase)/decrease in inventories	(40,251)	13,358
Decrease in trade receivables	93,548	37,331
Decrease/(increase) in current assets	9,371	(18,267)
Decrease in trade payables	(17,327)	(158,010)
(Decrease)/Increase in other liabilities	(131,541)	8,011
Net cash generated from operations	**128,085**	**50,063**

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

STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	**2010**	**2009** As restated
Cash flows from operating activities		
Cash generated from operations	128,085	50,063
Interest paid	(76,826)	(93,714)
Net cash from/(used in) operating activities	**51,259**	**(43,651)**
Cash flows from investing activities		
Acquisition of equity interest	-	(235)
Purchases of tangible and intangible assets	(46,131)	(43,538)
Sale of tangible and intangible assets	822	3,158
Long-term loans and deposits given	(298)	-
Repayment of long-term loans and deposits given	28,911	67,900
Purchase of trading securities	-	(8,989)
Sale of trading securities	15,876	4,088
Short-term loans and deposits given	(7,007)	(315,619)
Repayment of short-term loans and deposits given	4,000	186,130
Loan interest received	12,380	16,945
Net cash from/(used in) investing activities	**8,553**	**(90,160)**
Cash flows from financing activities		
Purchase of treasury shares	-	(6,390)
Proceeds from long-term borrowings	237,424	-
Repayment of long-term borrowings	(80,535)	(28,367)
Proceeds from short-term borrowings	356,678	413,580
Repayment of short-term borrowings	(575,596)	(538,516)
Net cash used in financing activities	**(62,029)**	**(159,693)**
Net decrease in cash and cash equivalents	**(2,217)**	**(293,504)**
Cash and cash equivalents at the beginning of year	77,582	371,086
Cash and cash equivalents at the end of year	75,365	77,582

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

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

As at 31 December 2010, the Company's shares were included in the Official Market (First Quotation) listing on the Zagreb Stock Exchange.

Principal activities

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

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

Corporate governance and management

General Assembly

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

President	Hrvoje Matić

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Supervisory Board
Supervisory Board members during 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 7 September 2010)*

- 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

Supervisory Board members during 2009:

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

- In the General Meeting of Shareholders of Podravka d.d., held on 14 September 2009, Mr. Darko Marinac, then current President of the Supervisory Board of Podravka d.d., resigned both as President and Member of the Company's Supervisory Board;

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

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

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)*

- The Supervisory Board of Podravka d.d. issued a decision on 31 May 2010 on the re-appointing 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..

Management Board during 2009:

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

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

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:

IFRS 3 (revised) *"Business Combinations"* (effective for annual periods beginning on or after 1 July 2009). The revised IFRS 3 requires recognition of acquisition costs in the period expenses. Revisions to IFRS 3 and the related changes to IAS 27 limit application of acquisition accounting principles only to the moment of control takeover; in consequence, goodwill is calculated as at that date only. IFRS 3 shifts more focus to fair value as at the acquisition date, providing details of its recognition. The change to the standard allows measurement of non-controlling interest (before amendment minority interests) in the acquiree at fair value or proportionally to its share in the identifiable net assets of the acquiree. The revised standard requires measurement of consideration related to the acquisition at fair value as at the acquisition date. The same principle applies to fair value of any contingent consideration due. IFRS 3 allows very few adjustments to measurement at initial recognition of the combination account and only if they result from additional information obtained with regard to facts and circumstances existing as at the acquisition date. Any other changes are recognized in profit/loss. The Standard defines impact on the acquisition accounting if the acquirer and acquiree were parties to a previous relation. IFRS 3 states that an entity has to classify all contractual terms as at the acquisition date with two exceptions: leases and insurance contracts. The acquirer applies its accounting standards and makes decisions in such a way as if the contractual relationship were taken over regardless of the business combination. The application of the amended Standard did not have any impact on the Company's financial statements since during the year 2010 the Entity has not been involved in any business combination.

Amendments to IFRS 2 *"Share-based Payment"* - Group cash-settled share-based payment (effective for annual periods beginning on or after 1 January 2010). The amendments clarify: (1) the scope of IFRS 2. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash, (2) the interaction of IFRS 2 and other standards. The Board clarified that in IFRS 2 a 'group' has the same meaning as in IAS 27 Consolidated and Separate Financial Statements, that is, it includes only a parent and its subsidiaries. The amendments to IFRS 2 also incorporate guidance previously included in IFRIC 8 Scope of IFRS 2 and IFRIC 11 IFRS 2—Group and Treasury Share Transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The application of the amended Standard did not have any impact on the Company's financial statements.

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

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

Amendments to IAS 27 *"Consolidated and Separate Financial Statements"* (effective for periods beginning on or after 1 July 2009). According to the revised standard, changes in the acquiree's interest in its subsidiary that do not result in a loss of control are accounted for in equity as transactions with owners in their capacity as owners. For such transactions, no financial profit/loss is recognized or goodwill remeasured. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent. The Standard defines accounting procedures to be applied by the parent if control of a subsidiary is lost. Amendments to IAS 28 and IAS 31 extend requirements regarding accounting for loss of control. If therefore an investor has lost significant impact on its associate, the entity should be derecognized and the difference between the total of cash inflows and the preserved interest in fair value and the carrying value of investment in the associate as at the date of losing the significant impact recognized in the profit/loss. A similar approach is required if an investor loses control over a jointly controlled entity. The application of the amended Standard did not have any impact on the Company's financial statements since during the year 2010 there have not been changes in the acquiree's interest in its subsidiaries.

Amendments to IAS 39 *"Financial Instruments: Recognition and Measurement"* – Eligible hedged items (effective for annual periods beginning on or after 1 July 2009). The revised Standard explains two hedge accounting issues: identifying inflation as a hedged risk or its portion; and hedging with options. The amendments make clear that inflation may only be hedged in the instance where changes in inflation are a contractually specified portion of cash flows of a recognised financial instrument. The amendments also clarify that a risk-free or benchmark interest rate portion of the fair value of a fixed-rate financial instrument will normally be separately identifiable and reliably measurable and, therefore, may be hedged. The revised IAS 39 permits an entity to designate purchased (or net purchased) options as a hedging instrument in a hedge of a financial or non-financial item. An entity may designate an option as a hedge of changes in the cash flows or fair value of a hedged item above or below a specified price or other variable (a one-sided risk) The application of the amended Standard did not have any impact on the Company's financial statements as the Company does not have hedging financial instruments.

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

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

Amendments to various standards and interpretations *"Improvements to IFRSs (2009)"* published by IASB on 16 April 2009. Amendments to various standards and interpretations resulting from the annual improvement project of IFRS (IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16) primarily with a view to removing inconsistencies and clarifying wording (majority is effective for annual periods beginning on or after 1 January 2010). The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) scope of IFRS 2 and revised IFRS 3, (ii) disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations, (iii) disclosure of information about segment assets, (iv) current/non-current classification of convertible instruments, (v) classification of expenditures on unrecognised assets, (vi) classification of leases of land and buildings, (vii) determining whether an entity is acting as a principal or as an agent in customer loyalty programmes, (viii) unit of accounting for goodwill impairment test, (ix) additional consequential amendments arising from revised IFRS 3; and measuring the fair value of an intangible asset acquired in a business combination, (x) treating loan prepayment penalties as closely related embedded derivatives; scope exemption for business combination contracts; cash flow hedge accounting, (xi) scope of IFRIC 9 and revised IFRS 3, (xii) amendment to the restriction on the entity that can hold hedging instruments. The application of the amended Standards and Interpretations did not have significant impact on the Company's financial statements.

2.2. Standards and Interpretations early adopted by the Company

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

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

IFRS 1 (revised) *"First-time Adoption of IFRS"* (effective for annual periods beginning on or after 1 July 2009). The revisions included reorganising the contents and moving to appendices most of the Standard's numerous exceptions and exemptions. The Board has removed out-of-date transitional provisions and made some minor wording amendments. The application of the amended Standard did not have any impact on the Company's financial statements since the Company applies IFRS.

Amendments to IFRS 1 *"First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters* (effective for annual periods beginning on or after 1 January 2010). The amendments: (1) exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets, (2) exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4 Determining whether an Arrangement contains a Lease when the application of their national accounting requirements produced the same result. The application of the amended Standard did not have any impact on the Company's financial statements since the Company applies IFRS.

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

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

IFRIC 17 *"Distributions of Non-Cash Assets to Owners"* (effective for the annual periods beginning on or after 1 July 2009). The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders. The most significant conclusion reached by the IFRIC is that the dividend should be measured at the fair value of the assets distributed, and that any difference between this amount and the previous carrying amount of the assets distributed should be recognised in profit or loss when the entity settles the dividend payable. The Interpretation does not apply to non-cash assets if distribution does not result in a change of control. The application of the amended Standard did not have any impact on the Company's financial statements.

IFRIC 18 *"Transfers of Assets from Customers"* (effective for assets transferred from customers at or after 1 July 2009). This Interpretation is of particular relevance for the utility sector as it clarifies the accounting for agreements where an entity receives an item of property, plant and equipment (or cash to construct such an item) from a customer and this equipment in turn is used to connect a customer to a network or to provide ongoing access to supply of goods/services. The application of the amended Standard did not have any impact on the Company's financial statements as the Company is not involved in such activities.

2.4. Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these 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). On 28 September 2010 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss.

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

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

Amendments to IFRS 1 *“First-time Adoption of IFRS”- Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* published by IASB on 28 January 2010. This amendment relieves first-time adopters of IFRSs from providing the additional disclosures introduced in March 2009 by Improving Disclosures about Financial Instruments (Amendments to IFRS 7). The application of the amended Standard did not have any impact on the Company’s financial statements since the Company applies IFRS.

Amendments to IFRS 1 *“First-time Adoption of IFRS”- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* published by IASB on 20 December 2010. The first amendment replaces references to a fixed date of ‘1 January 2004’ with ‘the date of transition to IFRSs’, thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation. The application of the amended Standard did not have any impact on the Company’s operations nor financial statements.

Amendments to IFRS 7 *“Financial Instruments: Disclosures”- Transfers of Financial Assets* (effective for annual periods beginning on or after 1 July 2011). The objective of the amendments is to improve the quality of the information reported about financial assets that have been ‘transferred’ but are still, at least partially, recognised by the entity because they do not qualify for derecognition; and financial assets that are no longer recognised by an entity, because they qualify for derecognition, but with which the entity continues to have some involvement.

Amendments to IAS 12 *“Income Taxes” - Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2012). IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 “Investment Property”. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will, normally be, be through sale.

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). The amendments provide a partial exemption for government-related entities. Until now, if a government controlled, or significantly influenced, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. The IASB has also simplified the definition and removed inconsistencies.

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

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

Amendments to IAS 32 *"Financial Instruments: Presentation"* - Accounting for rights issues (effective for annual periods beginning on or after 1 February 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

Amendments to various standards and interpretations *"Improvements to IFRSs (2010)"* resulting from the annual improvement project of IFRS 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 (most amendments are to be applied for annual periods beginning on or after 1 January 2011).

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). Without the amendments, in some circumstances entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendments correct this problem.

IFRIC 19 *"Extinguishing Financial Liabilities with Equity Instruments"* (effective for annual periods beginning at or after 1 July 2010). The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

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

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

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

The Company has issued these non-consolidated financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2010 and for the year then ended, in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 10 March 2011. In the consolidated financial statements, subsidiary undertakings (listed in Note 22) – which are those companies in which the Company, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2010 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

3.3. MATTERS AFFECTING PRIOR YEARS

3.3. a) Restatement of prior periods

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (continued)

3.4. a) Restatement of prior periods (continued)

The correction of the balances from the beginning of the comparative period (2007) has resulted in an increase in deferred income and an adjustment (decrease) of the opening balance of retained earnings as at 1 January 2008 in the amount of HRK 42,925 thousand.

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

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

	Note	As originally reported	As adjusted	Impact through an increase/ (decrease)
Statement on the financial position at 1 January 2009				
Deferred income – sale and leaseback transaction	35	-	40,058	40,058
Total liabilities		**2,013,846**	**2,053,904**	40,058
Retained earnings / (Accumulated losses)	31	9,822	(30,236)	(40,058)
Total equity		**1,629,550**	**1,589,492**	**(40,058)**
Statement on the comprehensive income for the year ended 31 December 2008				
Revenue from the sale and leaseback transaction		-	2,867	2,867
Profit for the year	**31**	**9,822**	**12,689**	**2,867**

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (continued)

3.5. b) Option agreements

The Company entered into several debt, deposit and call option agreements during 2009 related to loans, deposits and purchase options. The subject of such contracts is a package of 576,880 ordinary shares of the Podravka d.d. on which the company gave a sales option to a bank, which expired on 31 December 2010, and the bank gave a purchase option to Podravka d.d., which expired on 30 September 2010. Management has recorded in the unconsolidated financial statements of Podravka d.d. a liability to the bank representing the difference between the market price of shares of the Company and the terminal stock price (strike price) at 31 December 2010. The total liabilities amounted to HRK 113,940 thousand (terminal price per share amounted to HRK 500.19, and the market price was HRK 302.68), of which HRK 92,932 thousand relates to year 2009 and HRK 21,008 thousand to 2010.

In accordance with the decision of the Management Board as of 14 January 2011 the financial statements for 2009 have been restated.

The overall effect of the restatement to the financial statements for year 2009 is as follows:

	Note	As originally reported	As adjusted	Impact through an increase/ (decrease)
Statement on the financial position at 31 December 2009				
Accrued expenses on option contracts	35	-	92,932	92,932
Total liabilities		**1,867,987**	**1,960,919**	**92,932**
Accumulated losses	31	(372,657)	(475,589)	(92,932)
Total Equity		**1,252,519**	**1,159,587**	**(92,932)**
Statement on the comprehensive income for the year ended 31 December 2009				
Losses per option contracts		-	(92,932)	(92,932)
Loss for the period	31	**(332,599)**	**(425,531)**	**(92,932)**

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (continued)

3.3. c) 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 unconsolidated financial statements and reports of Podravka d.d..

3.4. Investments in subsidiaries

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

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

3.5. Non-current assets held for sale

Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of 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 financial position are not reclassified in the comparative statement of 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Revenue recognition

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

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

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

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

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

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

(b) Sales – retail products and goods

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

(c) Service sales

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

(d) Interest income

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

(e) Dividend income

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Leases

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

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

Sale and leaseback transactions

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Foreign currencies

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

As at 31 December 2010, the official exchange rate for EUR 1 and USD 1 was HRK 7.3852 and HRK 5.5683 (31 December 2009: HRK 7.3062 and HRK 5.0893, respectively).

3.8. Borrowing costs

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

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

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

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

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

3.9. 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 38.

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10 . Share-based payments (continued)

The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to the equity-settled employee benefits reserve.

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

3.10. Dividends

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

3.11. Operating segment reporting

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

3.12. Taxation

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

Current taxes

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

Deferred tax

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Taxation (continued)

Deferred tax (continued)

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

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

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

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

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

Current and deferred tax for the period

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

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

Value added tax

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Property, plant and equipment

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

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

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

	2010	2009
Buildings	10 to 50 years	10 to 50 years
Equipment	3 to 18 years	3 to 18 years

The residual value of an asset is the estimated amount that the Company would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each 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 3.16).

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

3.14. Intangible assets

Licences, brands and distribution rights

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

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

Computer software

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Impairment of tangible and intangible assets

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

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

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

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

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

3.16. Inventories

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

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

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

Small inventory and tools are expensed when put into use.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Trade receivables

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

3.18. Cash and cash equivalents

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

3.19. Share capital

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

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

3.20. Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Employee benefits (continued)

(c) Regular termination benefits

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

(d) Long-term employee benefits

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

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

(e) Short-term employee benefits

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

(f) Share-based compensation

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Provisions

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

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

3.22. 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)

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

A financial asset is classified as held for trading if:

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

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.
- Financial assets at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 37.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

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 Company that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in note 37. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in statement of comprehensive income for the period.

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

The fair value of AFS monetary 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 losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial

Impairment of financial assets

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

Impairment of financial assets (continued)

For all other financial assets, 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 Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

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

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 losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

In respect of AFS equity securities, impairment losses 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 losses 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.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

Derecognition of financial assets

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

3.23. Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any resultant gain or loss recognised in statement of comprehensive income. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in note 37.

Other financial liabilities

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Derecognition of financial liabilities

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

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 losses 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 Company 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.

3.24. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During 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 405 thousand.
During 2009, 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 161 thousand.

Impairment of non-current assets

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, terminal values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. Based on the calculation of the net present value of future cash flows in 2010, no impairment was recognized. In 2009, the Company impaired its intangible assets – brands – by HRK 39,270 thousand and distribution rights by HRK 7,200 thousand (note 20).

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

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. In 2008, the management of the Company has for the first time recognised in the financial statements deferred tax assets in respect of temporary differences. No restatement of the prior-period figures has been made, since the effect on the prior periods is not material. During 2010 and 2009, deferred tax assets in respect of available tax differences were recognised.

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. At 31 December 2010, provisions for jubilee awards amounted to HRK 8,074 thousand (2009: HRK 9,388 thousand), retirement HRK 7,227 thousand (HRK 5,641 thousand) (see notes 34 and 36).

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

Consequences of certain legal actions

There are a number of legal actions involving the Company, which have arisen from the regular course of its operations. The management makes estimates when the probable outcome of the legal action has been estimated, and the provisions are recognised on a consistent basis (see note 34).

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION

Sales

	2010	2009
	(in thousands of HRK)	
Income from sale of goods and services		
- external	1,231,203	1,327,090
- group	495,356	493,281
	1,726,559	**1,820,371**
Income from service		
- external	10,720	15,407
- group	52,054	65,359
	62,774	**80,766**
	1,789,333	**1,901,137**

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

Segment revenues and results

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

	Segment revenue		Segment profit	
(in thousands of HRK)	2010	2009	2010	2009
Culinary	809,942	830,219	143,096	115,264
Food	636,592	666,191	35,048	22,142
Beverages and other	342,799	404,727	6,587	22,626
	1,789,333	**1,901,137**	**184,731**	**160,032**
Other revenue			43,613	51,049
Other losses, net			(51,466)	(432,950)
Central administration costs			(80,489)	(102,060)
Restructuring and other expenses			(3,377)	(31,900)
Finance costs			(80,930)	(77,211)
Profit/(loss) before tax			**12,082**	**(433,040)**

NOTE 5 – SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

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

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

The 'Beverages and Other' segment comprises the following product groups: Non-alcoholic beverages, Merchandise, and Services.

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

Segment assets and liabilities

	31/12/2010	31/12/2009	1/1/2009
	(in thousands of HRK)		
Segment assets			
Culinary	1,005,913	1,056,676	1,158,253
Food	809,627	832,043	1,058,905
Beverages and other	446,050	459,513	615,498
Total segment assets	**2,261,590**	**2,348,232**	**2,832,656**
Unallocated	714,473	772,274	810,740
Total assets	**2,976,063**	**3,120,506**	**3,643,396**

	31/12/2010	31/12/2009	1/1/2009
	(in thousands of HRK)		
Segment liabilities			
Culinary	690,973	718,154	772,042
Foods	556,142	558,564	696,720
Beverages and other	306,398	319,180	414,266
Total segment liabilities	**1,553,513**	**1,595,898**	**1,883,028**
Unallocated	253,464	365,021	170,876
Total liabilities	**1,806,977**	**1,960,919**	**2,053,904**

NOTE 5 – SEGMENT INFORMATION (continued)

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

All liabilities other than 'other liabilities' and 'provisions' (Notes 34 and 35) have been allocated by segments. Liabilities have been allocated to reporting segments in proportion to segment assets.

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Culinary	36,082	38,876	29,608	19,650
Food	30,288	28,393	10,402	13,532
Beverages and other	19,402	19,588	9,496	10,356
Total	**85,772**	**86,857**	**49,506**	**43,538**

No addition to the depreciation and amortisation reported above, impairment losses and allowances were recognised in 2010. In 2009 additions were attributable to the following segments:

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

Geographical information

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

	Revenue from external customers	
	2010	**2009**
	(in thousands of HRK)	
Croatia	1,100,980	1,206,035
South-East Europe	377,272	403,484
Central and Eastern Europe	123,046	126,234
Western Europe and overseas countries	188,035	165,384
Total	**1,789,333**	**1,901,137**

Information about major customers

Revenue from external sales account for 69 % of the total revenue, whereas the remaining portion represents intra-group sales. Top 20 customers account for 61 % of the external sales.

NOTE 6 – INVESTMENT REVENUE

	2010	2009
	(in thousands of HRK)	
Dividends received	15,114	26,663
Interest on loans and receivables – Group entities	18,772	18,568
Interest on deposits and from receivables	6,860	8,546
Revenue from the sale and leaseback transaction	2,867	2,867
Interest on term-deposits and trade debtors	14	5,136
Impairment allowance on interest on loans and receivables	(14)	(10,731)
	43,613	**51,049**

Investment revenue analysed by asset category:

	2010	2009
	(in thousands of HRK)	
Equity investments in subsidiaries	15,114	26,663
Other financial assets	21,639	15,840
Trade and other receivables	6,860	8,546
	43,613	**51,049**

NOTE 7 – OTHER LOSSES, NET

	2010	2009
	(in thousands of HRK)	
Losses on remeasurement of liabilities at fair value through profit or loss	(34,157)	(16,907)
Losses per company share option contracts	(21,008)	(92,932)
Losses on value adjustment of investments, net	(1,653)	(5,996)
Gains/(losses) on disposal of non-current assets, net	2,220	(11,411)
Grant income (subsidies)	553	1,150
Impairment losses on guarantees given	-	(133,166)
Impairment losses on loans and receivables	-	(129,947)
Impairment losses on brands	-	(39,270)
Impairment losses on intangible rights	-	(7,200)
	(54,045)	**(435,679)**
Foreign exchange gain, net	2,579	2,729
	(51,466)	**(432,950)**

NOTE 8 – COST OF GOODS SOLD

	2010	2009
	(in thousands of HRK)	
Raw material and supplies	480,869	492,939
Cost of goods sold	385,719	422,608
Staff costs	184,159	187,345
Depreciation	62,388	64,791
Energy	48,019	43,609
Maintenance	8,716	15,387
Other costs (transport, rental, professional training, accrued expenses, etc.)	6,741	30,023
	1,176,611	**1,256,702**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
	(in thousands of HRK)	
Staff costs	83,447	115,590
Depreciation	17,271	13,626
Services (maintenance, communal services, graphic services, and similar)	13,254	15,417
Bank charges	6,968	7,095
Taxes and contributions independent of operating results	4,567	5,789
Rental costs	4,180	13,486
Telecommunications	3,230	4,822
Other materials and energy	2,519	2,415
Consultancy services	1,660	3,653
Entertainment	1,440	1,657
Per diems and other business travel expenses	1,115	2,122
Other expenses (professional training and literature, Supervisory Board fees, and similar)	5,837	9,107
	145,488	**194,779**

NOTE 10 – SELLING AND DISTRIBUTION EXPENSES

	2010	2009
	(in thousands of HRK)	
Staff costs	122,355	130,384
Rental costs	31,877	33,955
Transportation	16,990	20,113
Energy	14,130	12,824
Other services (single service agreements, distribution services, professional services, student service)	11,168	12,921
Net provisions for trade receivables	6,231	13,703
Maintenance	5,635	7,265
Depreciation	5,540	8,072
Per diems and other business travel expenses	4,472	6,091
Entertaiment	2,652	2,250
Telecommunications	2,142	2,984
Professional literature, administrative fees and duties	1,809	2,241
Insurance premium	1,731	1,482
Taxes and contributions independent of operating results	1,552	2,589
Other expenses (literature, education, entertainment, etc.)	11,280	10,741
	239,564	**267,615**

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

NOTE 11 – MARKETING EXPENSES

	2010	2009
	(in thousands of HRK)	
Retail trader and consumer marketing	50,586	50,017
Media investments	29,518	34,180
Staff costs	21,541	23,071
Institutional advertising and promotion	10,336	23,747
Services (maintenance, graphic services, engraving services, etc.)	5,316	5,533
Market research	2,305	2,542
Per diams and travel	1,115	1,363
Leases	1,095	963
Other expenses (entertainment, telecommunication, small inventory, etc.)	3,983	5,378
	125,795	**146,794**

Other marketing costs comprise entertainment and telecommunication and small inventory costs.

NOTE 12 – OTHER EXPENSES

	2010	2009
	(in thousands of HRK)	
Interest expense on trade creditors	(315)	8,063
Write-off of intra-group loans	1,325	1,112
	1,010	**9,175**

NOTE 13 – EXPENSES BY NATURE

	2010	2009
	(in thousands of HRK)	
Raw material, supplies and energy	573,734	573,784
Staff costs	411,502	456,390
Cost of goods sold	368,724	402,494
Advertising and promotion	92,745	110,486
Depreciation	85,772	86,857
Services (maintenance, distribution, consultancy, freight forwarding, and similar service costs)	58,133	60,631
Rental costs	40,679	51,606
Transport	18,756	21,951
Taxes and contributions independent of operating results	12,831	17,335
Provisions for trade and other receivables	7,545	16,199
Per diems and other business travel expenses	7,180	10,051
Telecommunications	6,609	9,480
Bank charges	6,968	7,095
Packaging waste disposal fee	4,931	5,326
Entertainment	4,675	4,433
Changes in value of inventory	(19,379)	563
Other expenses (insurance premium, design services, professional training and literature, administrative duties, court costs)	6,053	31,209
	1,687,458	**1,865,890**

NOTE 14 – STAFF COSTS

	2010	2009
	(in thousands of HRK)	
Salaries	391,733	416,730
Termination benefits	2,484	19,363
Transportation	6,317	6,069
Provisions for annual vacations, termination benefits and jubilee awards	2,328	2,771
Share options	(2,512)	2,016
Other employee benefits	11,152	9,441
	411,502	**456,390**

As at 31 December 2010, the number of staff employed by the Company was 3,634 (2009: 3,560).

In 2010, the Company accrued and paid retirement incentives for 35 employees in the amount of HRK 3,615 thousand, of which HRK 2,484 thousand being non-taxable and HRK 1,131 thousand taxable (2008: a provision of HRK 10,350 thousand) and HRK 1,835 thousand, which are included in the salaries (2009: HRK 31,548 thousand for 260 employees, of which HRK 29,713 thousand (in 2008 HRK 10,350 thousand was provided) being non-taxable and HRK 1,835 thousand taxable and reported as salary expense).

NOTE 15 – FINANCE COSTS

	2010	2009
	(in thousands of HRK)	
Interest expense on short-term borrowings	24,900	31,130
Interest expense on long-term borrowings	18,154	21,451
Interest expense on issued bonds	19,202	19,114
Interest expense on commercial papers	10,951	9,845
Unrealized losses on swap contracts	4,137	-
	77,344	**81,540**
Net foreign exchange losses/(gains) on borrowings	3,586	(4,329)
	80,930	**77,211**

During 2010 and 2009, the Company had no investments on which interest expense would be capitalised. On 27 May 2009 the Company 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 (LOSSES)/GAINS

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

	2010	2009
	(in thousands of HRK)	
Finance (costs) /revenue	(3,586)	4,329
Other gains, net	2,579	2,729
	(1,007)	**7,058**

NOTE 17 – INCOME TAX

The tax on the Company's profit before tax differs from the notional amount that would arise using the tax rate of 20% (2009: 20%) applicable to the Company's profit as follows:

	2008	**2009** As restated
	(in thousands of HRK)	
Profit/(loss) before taxation	12,082	(433,040)
Tax calculated at weighted average tax rates applicable to the Company's profits	2,416	-
Effect of permanent differences, net	6,149	(5,434)
Effect of tax benefits (research and development, education and other allowances)	(55)	(433)
Effect of tax losses (used)/ brought forward	(7,355)	(1,642)
Tax expense/(income) recognised in the statement of comprehensive income	**1,155**	**(7,509)**

Deferred tax assets recognised in the statement of financial position	**2010**	**2009**
	(in thousands of HRK)	
Deferred tax assets	15,369	16,524

Unused tax losses:	**2010**	**2009**
	(in thousands of HRK)	
Unused tax losses	114,607	151,384

The availability of unused tax losses expires as follows:

2010	-	-
2011	21,344	58,121
2012	27,061	27,061
2013	66,202	66,202

In accordance with Croatian tax regulations, by the end of 2010, the Company realised tax losses in the amount of HRK 114,607 thousand (2009: HRK 151,384 thousand), which may be utilised up to 2013 at the latest. Unused tax losses have not been recognised as deferred tax assets in the statement of financial position, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

NOTE 17 – INCOME TAX (continued)

Deferred tax assets arise from the following:

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

2010	**Opening balance**	**Through statement of the comprehensive income**	**Closing balance**
		(in thousands of HRK)	
Intangible assets - brand	7,854	-	7,854
Provisions for jubilee awards	1,878	(263)	1,615
Value adjustment of inventories	1,882	340	2,222
Financial assets	1,754	479	2,233
Provision for unused vacation days	2,028	(2,028)	-
Provision for termination benefits	1,128	317	1,445
	16,524	**(1,155)**	**15,369**

Unrecognised deferred tax assets

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

	2010	**2009**
	(in thousands of HRK)	
Tax losses	22,950	30,785
	22,950	**30,785**

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

NOTE 18 – EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

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

	2010	**2009** As restated
Net profit/(loss) to equity holders (in thousands of HRK)	10,927	(425,531)
Weighted average number of shares	5,242,492	5,243,961
Basic earnings/(loss) per share (in HRK and lipa)	**2.08**	**(81.15)**

Diluted earnings/(loss) earnings per share

Diluted earnings/(loss) per share were calculated as the basic earnings/(loss) per share, including the impact of the number of share options granted to employees, of which 24,000 were not exercised (2009: 38,300 options):

	2010	**2009** As restated
Net profit/(loss) attributable to equity holders (in thousands of HRK)	10,927	(425,531)
Adjustment for share options	24,000	38,300
Weighted average number of shares in issue for diluted earnings per share	5,266,492	5,282,261
Diluted earnings/(loss) per share (in HRK and lipa)	**(2.07)**	**(80.56)**

NOTE 19 – DIVIDENDS PER SHARE

On 31 August 2010, the Company's General Assembly adopted a decision to cover loss of business for 2009, by which the loss was transferred to the next period.

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

NOTE 20 – INTANGIBLE ASSETS

	2010	**2009**	**2008**
		(in thousands of HRK)	
Cost	322,043	313,764	307,258
Accumulated amortisation	(152,065)	(144,036)	(98,794)
	169,978	**169,728**	**208,464**

NOTE 20 – INTANGIBLE ASSETS (continued)

(in thousands of HRK)	**Software**	**Distribution rights**	**Brand**	**Investments in progress**	**Total**
Cost					
At 1 January 2009	109,556	12,000	147,615	38,087	307,258
Additions	-	-	-	14,358	14,358
Transfers	16,174	-	21,584	(37,758)	-
Disposals	(7,852)	-	-	-	(7,852)
At 31 December 2009	**117,878**	**12,000**	**169,199**	**14,687**	**313,764**
Accumulated amortisation					
At 1 January 2009	(96,394)	(2,400)	-	-	(98,794)
Charge for the year	(4,071)	(2,400)	-	-	(6,471)
Eliminated on disposal	7,699	-	-	-	7,699
Impairment losses recognized during the year	-	(7,200)	(39,270)	-	(46,470)
At 31 December 2009	**(92,766)**	**(12,000)**	**(39,270)**	**-**	**(144,036)**
Carrying amount at 31 December 2009	**25,112**	**-**	**129,929**	**14,687**	**169,728**
Cost					
At 1 January 2010	117,878	12,000	169,199	14,687	313,764
Additions	-	-	-	8,279	8,279
Transfers	20,630	-	40	(20,670)	-
At 31 December 2010	**138,508**	**12,000**	**169,239**	**2,296**	**322,043**
Accumulated amortisation					
At 1 January 2010	(92,766)	(12,000)	(39,270)	-	(144,036)
Charge for the year	(8,029)	-	-	-	(8,029)
At 31 December 2010	**(100,795)**	**(12,000)**	**(39,270)**	**-**	**(152,065)**
Carrying amount at 31 December 2010	**37,713**	**-**	**129,969**	**2,296**	**169,978**

NOTE 20 – INTANGIBLE ASSETS (continued)

	2010	2009	2008
	(in thousands of HRK)		
Brand	129,969	129,929	147,615
Software	37,713	25,112	13,162
Assets under construction	2,296	14,687	38,087
Distribution rights	-	-	9,600
	169,978	**169,728**	**208,464**

At the end of the reporting period, the Company reassessed the recoverable amount of its brands and determined that the brands impairment is not required (2009: brands were impaired by HRK 39,270 thousand). The recoverable amount of the cash generating unit has been estimated using the discounted cash flow model.

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

The impairment losses on intangible assets have been reported in the statement of comprehensive income within 'Other losses' (Note 7).

NOTE 21 – PROPERTY, PLANT AND EQUIPMENT

	2010	2009	2008
	(in thousands of HRK)		
Land and buildings	658,472	653,668	699,150
Fittings and equipment	254,730	260,575	281,724
Assets under construction	43,830	86,384	85,375
	957,032	**1,000,627**	**1,066,249**

NOTE 21 – PROPERTY, PLANT AND EQUIPMENT (continued)

(in thousands of HRK)	Land and buildings	Equipment and fittings	Assets under construction	Total
Cost				
At 1 January 2009	1,236,590	937,790	85,375	2,259,755
Additions	-	5,121	28,615	33,736
Transfers	5,328	20,499	(25,827)	-
Disposals	(11,992)	(27,502)	(1,779)	(41,273)
At 31 December 2009	**1,229,926**	**935,908**	**86,384**	**2,252,218**
Accumulated depreciation				
At 1 January 2009	(537,440)	(656,066)	-	(1,193,506)
Additions – reused assets	-	(4,475)	-	(4,475)
Charge for the year	(38,919)	(41,467)	-	(80,386)
Eliminated on disposal	101	26,675	-	26,776
At 31 December 2009	**(576,258)**	**(675,333)**	**-**	**(1,251,591)**
Carrying amount at 31 December 2009	**653,668**	**260,575**	**86,384**	**1,000,627**
Cost				
At 1 January 2010	1,229,926	935,908	86,384	2,252,218
Additions	3,357	5,331	36,544	45,232
Transfers	40,602	32,692	(73,294)	-
Disposals	(2,510)	(9,915)	(702)	(13,127)
Reclassification	-	-	(5,102)	(5,102)
At 31 December 2010	**1,271,375**	**964,016**	**43,830**	**2,279,221**
Accumulated depreciation				
At 1 January 2010	(576,258)	(675,333)	-	(1,251,591)
Additions – reused assets	-	(4,004)	-	(4,004)
Charge for the year	(38,060)	(39,683)	-	(77,743)
Eliminated on disposal	1,415	9,734	-	11,149
At 31 December 2010	**(612,903)**	**(709,286)**	**-**	**(1,322,189)**
Carrying amount at 31 December 2010	**658,472**	**254,730**	**43,830**	**957,032**

Land and buildings of net book value of HRK 490,987 thousand (2009: HRK 450,862 thousand) have been mortgaged against the Company's borrowings.

NOTE 21 – PROPERTY, PLANT AND EQUIPMENT (continued)

	2010	**2009**	**2008**
		(in thousands of HRK)	
Cost of capitalised finance leases	65,286	62,632	62,586
Accumulated depreciation	(15,339)	(11,372)	(6,897)
Net book value	**49,947**	**51,260**	**55,689**

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

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

The 2008 financial statements have been adjusted to reflect the correction of the error in recognising the income from the sale and leaseback transaction so as to make it compliant with IAS 17.

As at 31 December 2010, deferred income in respect of the sale and leaseback transaction amount to HRK 34,323 thousand (2009: HRK 37,190 thousand).

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

NOTE 22 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country of incorporation	Ownership interest in %			Equity share in thousands of HRK			Principal activity
		2010	2009	2008	2010	2009	2008	
Belupo d.d., Koprivnica	Croatia	100.00	100.00	100.00	157,830	157,830	157,830	Production and distribution of pharmaceuticals
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	100.00	3,328	3,328	3,328	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100.00	100.00	100.00	20	20	20	Purchase and sale of goods; meal preparation and catering services
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	100.00	102,216	102,216	102,216	Meet processing and production
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	100.00	20	20	20	Services
Lero d.o.o., Rijeka	Croatia	100.00	100.00	100.00	89,993	89,993	89,993	Fruit and vegetable juice and beverage production
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	100.00	20	20	20	Prodaja robe
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	100.00	47,425	47,425	47,425	Ice-cream
Sana d.o.o., Hoče	Slovenia	100.00	100.00	100.00	217	217	217	Wafers
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	100.00	1,925	1,925	1,925	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	100.00	42	42	42	Sale and distribution
Podravka d.o.o., Sarajevo	B&H	100.00	100.00	100.00	40	40	40	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	100.00	1,029	1,029	1,029	Sale and distribution
Podravka-Int. Deutschland –"Konar"	Germany	100.00	100.00	100.00	1,068	1,068	1,068	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	100.00	100.00	1,148	1,148	1,148	Sale and distribution
Podravka-International Kft, Budapest	Hungary	100.00	100.00	100.00	5,343	5,343	5,343	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	100.00	100.00	10	10	10	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	98.88	98.88	98.88	426	426	426	Sale and distribution
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	100.00	49,717	49,717	49,717	Seasonings manufacture and sale
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	100.00	84	84	84	Sale and distribution
Lagris a.s., Lhota u Luhačovic	Czech Republic	100.00	100.00	100.00	68,754	68,754	68,754	Rice production and sale
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	75.00	1,034	1,034	1,034	Sale and distribution
Podravka-International Inc. Wilmington	USA	100.00	100.00	100.00	3	3	3	Sale and distribution
Podravka International, Turkey	Turkey	75.00	75.00	-	561	15	-	Sale and distribution
					532,253	**531,707**	**531,692**	

NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)

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

According to the decision of the Management Board brought on 19 April 2010, the Company increased stake in Podravka International, Turkey for the amount of HRK 546 thousand.

This decision was approved by Supervisory Board on 5 July 2010.

The General Assembly of the company Podravka International, sro at 31 March 2010 approved a change of residence from Bratislava to Zvolen.

NOTE 23 – LONG TERM FINANCIAL ASSETS

	2010	2009	2008
		(in thousands of HRK)	
Loans to related companies	161,533	218,816	213,092
Loans to third parties	4,141	4,456	53,949
Impairment losses on loans to third parties	(2,500)	(2,500)	-
Deposits and other	3,677	3,271	2,992
	166,851	**224,043**	**270,033**

Loans given to related parties includes current portion of the long term loan granted to: Belupo d.d. in the amount of HRK 53,844 thousand (2009: HRK 53,844), Danici d.o.o. in the amount of HRK 3,439 thousand (2009: HRK 13,757 thousand), Podravka Budapest in the amount of HRK 340 thousand in 2009, Podravka International Turkey in the amount of HRK 797 thousand in 2009, and short term loan granted to Danica d.o.o. in the HRK 2,000 thousand (Note 39).

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

NOTE 24 – INVENTORIES

	2010	2009	2008
		(in thousands of HRK)	
Raw materials and supplies	111,322	103,611	102,724
Work in progress	26,516	30,241	32,865
Finished goods	119,539	96,849	94,840
Trade goods	66,361	54,484	66,360
	323,738	**285,185**	**296,789**

In 2010, Podravka has recorded inventory impairment in the amount of HRK 1,698 thousand (2009: HRK 1,754 thousand was credited. This expense in included in the statement of comprehensive income in line item ‘Cost of goods sold’

NOTE 25 – TRADE AND OTHER RECEIVABLES

	2010	2009	2008
	(in thousands of HRK)		
Current receivables			
Trade receivables	294,934	355,995	450,552
Less: Provisions for impairment	(59,451)	(60,516)	(52,783)
Net trade receivables	**235,483**	**295,479**	**397,769**
Intragroup trade receivables	286,089	327,186	294,101
Restricted deposit	45,788	45,298	-
Intragroup loans given	59,283	68,739	90,923
Loans given	61,487	61,487	18,542
Impairment allowance on loans given	(61,197)	(61,197)	-
Advances to suppliers	328	845	4,535
Bills of exchange received	23,713	22,411	2,987
Other receivables	74,609	32,541	57,795
	725,583	**792,789**	**866,652**

Loans given to related parties includes current portion of the long term loan granted to: Belupo d.d. in the amount of HRK 53,844 thousand (2009: HRK 53,844), Danici d.o.o. in the amount of HRK 3,439 thousand (2009: HRK 13,757 thousand), Podravka Budapest in the amount of HRK 340 thousand in 2009, and short term loan granted to Danica d.o.o. in the HRK 2,000 thousand (Note 39).

During 2009, Company made allowance for loans in the amount of HRK 61,197 thousand (Fima Grupa HRK 49,190 thousand, Gradec d.o.o., Križevci HRK 10,757 thousand, Sloga d.o.o., Koprivnica HRK 1,250 thousand). These transactions were made in accordance with the matters described in Note 3.3 b.

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

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

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

	2010	2009
	(in thousands of HRK)	
At 1 January	60,516	52,783
Increase	6,017	14,355
Amounts collected	(1,314)	(2,398)
Written off as uncollectible	(5,768)	(4,224)
At 31 December	**(59,451)**	**60,516**

In 2010, the expense of the provision for trade receivables, i.e. the income from the collection of trade receivables previously provided for is included in 'Selling and distribution costs'.

NOTE 25 – TRADE AND OTHER RECEIVABLES (continued)

Ageing analysis of trade receivables past due but not impaired

	2009	**2009**
	(in thousands of HRK)	
Up to 90 days	128,344	150,776
91-180 days	56,847	78,613
181-360 days	26,183	31,610
	211,374	**260,999**

Other receivables at 31 December were as follows:

	2010	**2009**	**2008**
		(in thousands of HRK)	
Other financial receivables under forced collection proceedings	65,000	65,000	-
Impairment allowance on other financial receivables under forced collection proceedings	(65,000)	(65,000)	-
Other loans and interests receivable from related companies	52,876	161	20,340
Other financial receivables in respect of guarantees paid	30,556	30,556	-
Impairment allowance on other financial receivables in respect of guarantees paid	(30,556)	(30,556)	-
Prepaid expenses	11,003	5,673	3,677
Interest receivable on domestic loans	10,715	11,007	7,884
Impairment allowance on domestic loan interest receivable	(10,715)	(11,007)	(275)
Net VAT receivable	5,982	5,238	13,609
Receivables from employees	1,524	1,830	1,666
Profit distributions from related entities	1,477	17,297	7,970
Past due long-term loan receivables	1,381	1,381	131
Impairment allowance on past due long-term loan receivables	(1,381)	(1,381)	(131)
Other receivables – gross	2,784	3,379	3,961
Impairment allowance for other receivables	(1,037)	(1,037)	(1,037)
	74,609	**32,541**	**57,795**

Impairment allowances made during 2009 comprise the following:

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

In 2010 there was no other assets required impairment and presentation within 'Selling and distribution expenses', i.e. the expense analysis by nature.

NOTE 26 – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

	2010	2009	2008
	(in thousands of HRK)		
Investments in:			
Investment funds	4,792	22,321	23,416
	4,792	**22,321**	**23,416**

Movements during the year are as follows:

	2010	2009
	(in thousands of HRK)	
Opening net book value	22,321	23,416
Additions	-	8,989
Disposals	(15,876)	(4,088)
Effect of remeasurement at fair value	(1,653)	(5,996)
Closing net book value	**4,792**	**22,321**

NOTE 27 – CASH AND CASH EQUIVALENTS

	2010	2009	2008
	(in thousands of HRK)		
Cash with banks	75,296	56,830	222,388
Short-term deposits – up to 3 months	-	20,701	148,639
Cash in hand	67	49	52
Cheques received	2	2	7
	75,365	**77,582**	**371,086**

NOTE 28– LONG TERM ASSETS HELD FOR SALE

	2010	2009	2008
	(in thousands of HRK)		
Property at A. Starčevića 29	3,150		
Property at Trg bana J. Jelačića 16	1,952	-	-
	5,102	**-**	**-**

NOTE 29 – SHARE CAPITAL

	2010	2009	2008
	(in thousands of HRK)		
Ordinary shares	1,626,001	1,626,001	1,626,001
Capital gains	22,073	24,585	22,569
Own shares	(67,604)	(67,604)	(61,214)
	1,580,470	**1,582,982**	**1,587,356**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)	*(in thousands of HRK)*			
At 1 January 2009	**5,267,326**	**1,626,001**	**22,569**	**(61,214)**	**1,587,356**
Purchase of treasury shares	(24,834)	-	-	(6,390)	(6,390)
Employee share options: - fair value of options	-	-	2,016	-	2,016
At 31 December 2009	**5,242,492**	**1,626,001**	**24,585**	**(67,604)**	**1,582,982**
At 1 January 2010	**5,242,492**	**1,626,001**	**24,585**	**(67,604)**	**1,582,982**
Employee share options: - fair value of options	-	-	(2,512)	-	(2,512)
At 31 December 2010	**5,242,492**	**1,626,001**	**22,073**	**(67,604)**	**1,580,470**

As at 31 December 2010, the Company's share capital amounted to HRK 1,626,001 thousand, distributed among 5,420,003 shares (2009: 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 38 to the financial statements.

NOTE 30 – RESERVES

	2010	2009	2008
	(in thousands of HRK)		
Legal reserves	6,849	6,849	6,358
Other reserves	1,084	-	-
Reserves for treasury shares	35,345	35,345	26,014
	43,278	**42,194**	**32,372**

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Reserves for treasury shares**	**Total**
At 1 January 2009	6,358	-	26,014	32,372
Transfer to reserves	491	-	9,331	9,822
At 31 December 2009	**6,849**	**-**	**35,345**	**42,194**
At 1 January 2010	6,849	-	35,345	42,194
Transfer to reserves	-	1,084	-	1,084
At 31 December 2010	**6,849**	**1,084**	**35,345**	**43,278**

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

According to the decision of the General Assembly of the Company, dividends from 1998, 2002 and 2004 in the amount of HRK 1,084 thousand have been written off and recognized as other reserves.

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

NOTE 31 – ACCUMULATED LOSSES

	2010	2009 As restated	2008 As restated
		(in thousands of HRK)	
Accumulated losses	(454,662)	(465,589)	(30,236)

	2010	2009	2008
At 1 January	(465,589)	(30,236)	3,628
- Effect of the correction of loss on share option contracts	-	(92,932)	-
- The effect of the correction of the income from the sale and leaseback transaction	-	-	(42,925)
Restated opening balance	**(465,589)**	**(123,168)**	**(39,297)**
- Net profit / loss for the period prior to correction	-	(9,822)	(3,628)
- The effect of the correction of the income from the sale and leaseback transaction	10,927	(332,599)	9,822
- Recognized income from sale and leaseback transaction	-	-	2,867
At 31 December	**(454,662)**	**(465,589)**	**(30,236)**

NOTE 32 – FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS

	2010	2009	2008
		(in thousands of HRK)	
Issued bonds	371,100	336,300	318,750
	371,100	**336,300**	**318,750**

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 effective interest rates on the reporting dates were as follows:

	2010			2010		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	**%**	**%**	**%**	**%**	**%**
Issued bonds	5.32	-	-	5.32	-	-

NOTE 33 – BORROWINGS

	2010	2009	2008
	(in thousands of HRK)		
Non-current borrowings			
Banks in Croatia	241,881	27,407	37,467
Banks in foreign countries	252,928	331,873	402,418
Finance lease	22,110	26,239	28,450
	516,919	**385,519**	**468,335**
Current borrowings			
Banks in Croatia	279,625	309,652	534,992
Banks in foreign countries	85,863	243,041	51,696
Finance lease	1,858	2,153	2,568
Reverse factoring	-	-	42,700
Other	1,389	1,940	1,511
	368,735	**556,786**	**633,467**
Total borrowings	**885,654**	**942,305**	**1,101,802**

Bank borrowings in the amount of HRK 603,937 thousand (2009: HRK 554,343 thousand) are secured by mortgages over the Company's land and buildings.

NOTE 33 – BORROWINGS (continued)

The finance lease liabilities are as follows:

	Minimum lease payments		**Finance cost**		**Present value of minimum lease payments**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
			(in thousands of HRK)			
Up to 1 year	3,852	4,287	1,994	2,134	1,858	2,153
Between 1 and 5 years	16.735	17,057	8,067	8,635	8,668	8,422
After 5 years	17,529	23,179	4,087	5,362	13,442	17,817
Less: future finance charges	**(14.148)**	**(16,131)**	**(14,148)**	**(16,131)**	**23,968**	**28,392**
Present value of minimum lease payments	**23,968**	**28,392**			**23,968**	**28,392**
Included in the financial statements within:						
Current borrowings					1,858	2,153
Non-current borrowings					22,110	26,239
					23,968	**28,392**

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

	2010	**2009**
	(in thousands of HRK)	
6 months or less	314,257	428,252
6 – 12 months	54,478	74,476
1 – 5 years	516,919	439,577
Over 5 years	-	-
	885,654	**942,305**

If the interest rate on borrowings at variable rates increases by 4.5 % on average, the liability in respect of interest would increase by HRK 3,171 thousand (2009: based on an average increase of 3.87 %, the liability would increase by HRK 2,916 thousand).

The maturity of non-current borrowings is as follows:

	2010	**2009**
	(in thousands of HRK)	
Between 1 and 2 years	322,337	96,761
Between 2 and 5 years	179,179	270,941
Over 5 years	15,403	17,817
	516,919	**385,519**

NOTE 33 – BORROWINGS (continued)

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

	2010		2009	
	HRK	EUR	HRK	EUR
	%	%	%	%
Non-current borrowings				
Banks in Croatia	7.69	5.68	-	5.00
Banks in foreign countries	-	4.24	-	3.99
Finance lease	-	6.65	-	6.33
Current borrowings				
Banks	6.75	-	6.88	-
Other	5.00	-	5.00	-

During 2010, Podravka used part of an approved long-term syndicated loan of EUR 32,155 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%). With the used part of syndicated loan Podravka repaid short-term bank loans of HRK 129,598 thousand and HRK 98,247 thousand. Existing long-term loans were repaid in accordance with the amortization schedule for the current year. Within short-term loans there is a second tranche of commercial notes issued on 8 February 2010 in the amount of HRK 130,000 thousand with a yield of 9.15%, issue price 91.638%. The bills were redeemed on 7 February 2011.

The carrying amounts and fair values of the Company's borrowings are as follows:

	Carrying amounts		Fair value	
	2010	2009	2010	2009
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Banks in Croatia	241,881	27,407	242,071	27,560
Foreign banks	252,928	331,873	252,928	331,873
Finance lease	22,110	26,239	22,110	26,239
	516,919	**385,519**	**517,109**	**385,672**

The fair value has been determined on the basis of the discounted cash flows using the interest rate of 5.05 % (2009: 2.71 %).

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

NOTE 33 – BORROWINGS (continued)

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

	2010	**2009**
	(in thousands of HRK)	
HRK	293,343	148,191
EUR	592,311	794,114
	885,654	**942,305**

The Company has the following undrawn borrowing facilities:

	2010	**2009**
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	503,764	67,777
	503,764	**67,777**

The stated borrowing is a long-unused syndicated loan amounting to EUR 67,845 thousand and the unused part for opening letters of credit for import of goods with deferred payment. Unused part of the syndicated term loan will be used in the first half of 2011 for the redemption of commercial paper and bonds issued.

NOTE 34 – PROVISIONS

	2010	2009	2008
	(in thousands of HRK)		
Non-current	20,567	19,263	18,302
Current	12,631	11,684	8,817
	33,198	**30,947**	**27,119**

(in thousands of HRK)	Jubilee awards	Vacation accrual	Termination benefits - incentives	Legal actions	Total
Analysis of total provisions as at 31 December 2009:					
Non-current	7,945	-	5,641	5,677	19,263
Current	1,443	10,144	-	97	11,684
	9,388	**10,144**	**5,641**	**5,774**	**30,947**
At 1 January 2010					
Charged/(credited) to statement of comprehensive income:					
Increase in provisions	134	9,999	1,680	1,458	13,271
Utilised during the year	(1,448)	(9,390)	(94)	(88)	(11,020)
At 31 December 2010	**8,074**	**10,753**	**7,227**	**7,144**	**33,198**
Analysis of total provisions as at 31 December 2010:					
Non-current	6,474	-	7,227	6,866	20,567
Current	1,600	10,753	-	278	12,631
	8,074	**10,753**	**7,227**	**7,144**	**33,198**

NOTE 34 – PROVISIONS (continued)

Employee benefits

This provision comprises estimated employee benefits relating to unused vacation days and jubilee awards, as defined by the collective bargaining agreement. The non-current provision in the amount of HRK 6,474 thousand (2009: HRK 7,945 thousand) relates to the estimated acquired rights to jubilee awards that will be paid after 2010.

The current amount of employee benefits includes HRK 10,753 thousand (2009: HRK 10,144 thousand) in respect of unused vacation days and HRK 1,600 thousand (2009: HRK 1,443 thousand) in respect of jubilee awards that will be paid in 2011.

Legal proceedings

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

Based on the expert opinion of legal counsel, the Company's Management believes that the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2010.

NOTE 35 – TRADE AND OTHER PAYABLES

	2010	2009	2008
		As restated	
		(in thousands of HRK)	
Trade payables	250,354	272,363	366,347
Trade payables – intragroup transactions	46,405	44,930	96,129
Other liabilities	220,266	334,074	143,757
	517,025	**651,367**	**606,233**

At 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 payables include the following:

	2010	2009	2008
		As restated	
		(in thousands of HRK)	
Accrued liabilities per share option contract	113,940	92,932	-
Deferred lease income	34,323	37,190	40,058
Salaries and other benefits to employees	32,582	34,965	43,521
Accrued interest not yet due on bonds and borrowings	18,170	16,543	24,050
Other accrued expenses	7,476	35,953	30,334
Package waste disposal fee payable	7,003	6,924	(657)
Taxes, contributions and other duties payable	5,415	4,303	2,064
Dividends payable	687	1,773	1,780
Accrued expenses in respect of a guarantee given	-	102,610	-
Other	670	881	2,607
	220,266	**334,074**	**143,757**

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

In 2010 Podravka d.d. settled liabilities for guarantee given to Fima Grupa d.d., Varaždin.

NOTE 36 – DEFINED BENEFIT PLAN

Defined benefit plan

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

- HRK 1,200 for 10 years of 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 Company pays pension contributions on behalf of its employees in accordance with applicable legal regulations. These contributions form the basis of social benefits payable out of the Croatian national pension fund to Croatian employees upon their retirement.

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2010 by the actuaries of the firm Aktuarijat Sanjković d.o.o. In 2010, the Company made a provision of HRK 8,074 thousand (2009: HRK 9,388 thousand)for jubilee awards and HRK 7,227 thousand (2009:HRK 5,641 thousand) for regular retirement benefits.

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

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

		Estimate	
	2010	**2009**	**2008**
Discount rate	6.5%	6.2%	6.4%
Fluctuation rate	11.88%	7.5%	5.39%
Average expected remaining working lives (in years)	22	22	22

NOTE 36 – DEFINED BENEFIT PLAN (continued)

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

	2010	2009
	(in thousands of HRK)	
Current service cost	648	694
Interest expense	894	837
Benefits paid	(1,542)	(1,519)
Net actuarial losses/(gains) for the year	271	(1,621)
	271	**(1,609)**

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

	2010	2009
	(in thousands of HRK)	
Present value of jubilee awards	8,074	9,388
Present value of termination benefits	7,227	5,641
Obligation reported in the statement of financial position	**15,301**	**15,029**

Of which by maturity:

	2010	2009
	(in thousands of HRK)	
Short-term	1,600	1,443
Long-term	13,701	13,586
	15,301	**15,029**

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

	2010	2009
	(in thousands of HRK)	
At 1 January	15,029	16,638
Current service cost	648	694
Interest expense	894	837
Actuarial losses/(gains)	271	(1,621)
Benefits paid	(1,542)	(1,519)
Other actuarial adjustments	1	-
At 31 December	**15,301**	**15,029**

NOTE 37 – FINANCIAL INSTRUMENTS

37.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

The Treasury of Podravka d.d. and the Podravka Group analyses 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:

	2010	**2009** As restated
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	1,256,754	1,278,605
Cash and cash equivalents	(75,365)	(77,582)
Net debt	1,181,389	1,201,023
Equity	1,169,086	1,159,587
Net debt to equity ratio	101.05%	103.57%

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

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

The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 33, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 27, 29, 30 and 31 respectively.

NOTE 36 – FINANCIAL INSTRUMENTS (continued)

37.2. Categories of financial instruments

	2010	2009
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	938,104	1,066,765
Held-to-maturity bills	23,713	22,411
At fair value through profit or loss	4,792	22,321
Financial liabilities		
Financial lease liabilities	23,968	28,392
Borrowings	861,686	913,913
Trade and other payables	511,610	647,064
At fair value through profit or loss	371,100	336,300

37.3. Financial risk management objectives

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

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

The significant risks, together with the methods used to manage these risks, are described below. To Company does not use any derivatives to manage its risks or for speculative purposes. The Company is in compliance with the changes in variable interest rates entered into a contract on Interest Rate Swap.

37.4. Market risk

Commodity risk management (price risk)

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

The Company 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 Podravka.

Sales function based risk

The Company generates approximately 61.5 % of its revenue on the domestic market, whereas around 38.5 % of the sales are generated on international markets, mainly through related entities. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

NOTE 37 – FINANCIJSKI INSTRUMENTI (continued)

37.5. Foreign exchange risk management

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

	Liabilities		Assets	
	2010	2009	2010	2009
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	1,214,346	852,543	316,504	312,870
USA (USD)	7,379	2,738	7,801	6,407
Other currencies	1,368	137	10,498	15,163

Foreign currency sensitivity analysis

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

The following table details the Company's sensitivity to a 0.48 % increase in Croatian kuna against the relevant foreign currencies (2009: a 1.77 % decrease in Croatian kuna against the relevant foreign currencies). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the above specified percentage of change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR impact		USD impact	
	2010	2009	2010	2009
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	4,277	-	10	-
Loss	-	10,622	-	136

	Impact of other currencies	
	2010	2009
	(in thousands of HRK)	
Profit	-	-
Loss	445	968

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

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.6. Interest rate risk management

The Company is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Company's borrowings are at variable rates. The Company 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 for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the interest expense of the Company as of 31 December 2010 would have changed by HRK 3,171 thousand (2009: HRK 2,916 thousand).

37.7. Other price risk

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

37.8. Credit risk management

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

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

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

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

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.8. Credit risk management (continued)

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

37.9. 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 Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and credit lines, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Liquidity and interest rate tables

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

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2010							
Non-interest bearing	-	270,201	80,948	129,005	11,469	19,987	511,610
Interest bearing	5.42	22,047	208,238	584,529	656,171	38,761	1,509,746
		292,248	**289,186**	**713,534**	**667,640**	**58,748**	**2,021,356**
2009							
Non-interest bearing	-	418,589	84,767	109,385	11,469	22,854	647,064
Interest bearing	6.02	5,534	455,180	134,532	874,134	25,127	1,494,507
		424,123	**539,947**	**243,917**	**885,603**	**47,981**	**2,141,571**

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 215,903 thousand for the year 2010. (2009: HRK 231,747 thousand) and amounts due to employees in the amount of HRK 32,582 thousand (2009: HRK 34,965 thousand).

The non-interest bearing liabilities of the Company due in a period of over five years include, among others, deferred income in the amount HRK 19,987 thousand (2009: HRK 22,854 thousand).

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

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.9. Liquidity risk management (continued)

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

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2010							
Non-interest bearing	-	417,875	156,951	44,206	-	-	619,032
Interest bearing	5.27	85,940	69,433	47,288	174,258	-	376,919
		503,815	**226,384**	**91,494**	**174,258**	**-**	**995,951**
2009							
Non-interest bearing	-	456,418	190,584	48,544	-	-	695,546
Interest bearing	5.65	84,945	67,521	58,024	279,146	4,506	494,142
		541,363	**258,105**	**106,568**	**279,146**	**4,506**	**1,189,688**

37.10. 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 2010, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their market value due to the short-term nature of those assets and liabilities.

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.10. Fair value of financial instruments

37.10.1. Fair value measurements recognised in the 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.

1. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

2. 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).

3. 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 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
		(in thousands of HRK)		
Financial assets at FVTPL				
Investment in investment funds	4,792	-	-	4,792
Total	**4,792**	-	-	**4,792**
Financial liabilities at FVTPL				
Bonds	371,100	-	-	371,100
Option on company shares	113,940	-	-	113,940
Interest swap	-	4,137	-	4,137
Total	**485,040**	**4,137**	-	**489,177**

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
		(in thousands of HRK)		
Financial assets at FVTPL				
Investment in investment funds	22,321	-	-	22,321
Total	**22,321**	-	-	**22,321**
Financial liabilities at FVTPL				
Bonds	336,300	-	-	336,300
Option on company shares	92,932	-	-	92,932
Total	**429,232**	-	-	**429,232**

NOTE 38 – SHARE-BASED PAYMENTS

Employee share options

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

The exercise period for the options granted until 2007 can be exercised after two to five years following the year in which they were acquired.
Those acquired in 2007 can be exercised within six months after two years from the year in which they were granted. Options granted in 2008 can be exercised after minimum one and maximum three years after the year in which they were granted.

All the terms and conditions apply, unless circumstances arise as provided in each of the 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

According to the contracts made at 1 June 2010, new options for 2010 were granted to Management Board President and members which can be exercised upon the expiry of at least one and maximum three years from the year in which they were granted. Based on that, the vesting period for options granted for 2010 begins at 1 January 2011.

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

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

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

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

During 2009 there was no new options granted

NOTE 38 – SHARE-BASED PAYMENTS (continued)

Options granted in 2010

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 10- issued 31/12/2010	20,000	31.12.2010	31.12.2013	308.81	302.68

Inputs into the model

	Series 5	Series 6	Series 7	Series 8	Series 10
Grant date share price	239.00	318.00	510.00	261.00	302.68
Exercise price	198.04	296.69	535.25	361.14	308.81
Expected volatility (%)	29.84%	23.33%	21.11%	25.49%	33.84%
Option life	5.0	5.0	2.5	3.0	3.0
Risk-free interest rate	5.500%	6.875%	6.813%	6.833%	5.625%

Overview of option balances and exercised options:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	38,300	328.26	73,549	397.11
Granted during the year	20,000	308.81	-	-
Unused/transferred	(34,300)	324.42	(35,249)	471.92
Exercised during the year	-	-	-	-
Balance at end of year	**24,000**	**317.53**	**38,300**	**328.26**

During 2010 there were no options executions.

Overview of unexercised options as at end of year per series:

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 8 - issued 31/12/2008	4,000	2008	2011	361.14	261.00
Series 10- issued 31/12/2010	20,000	2010	2013	308.81	302.68
Balance at end of year 2010	**24,000**				

At 31 December 2010, 24,000 options became vested (2009: 38,300 options). In 2010, for 34,300 options no rights have been realized (2009: 35,249 options). There were no exercised options in 2010 (2009: 0 options)
Weighted average exercise price of remaining share options as the end of 2010 was HRK 317.53 (2009: HRK 328.26).
Weighted average remaining contractual period at the end of the year was 974 days (2009: 460 days).

NOTE 39 – RELATED PARTY TRANSACTIONS

Related party transactions include operating business transactions with Podravka Group companies. Items resulting from these transactions and balances as at 31 December 2010 and 31 December 2009 are as follows:

REVENUE

	2010	2009
	(in thousands of HRK)	
Sales - products and trade goods	495,356	493,281
Service sales	52,054	65,359
	547,410	**558,640**

	Sales - products and trade goods		Service sales	
	2010	2009	2010	2009
	(in thousands of HRK)		*(in thousands of HRK)*	
Group company:				
Belupo d.d., Koprivnica	425	440	12,378	21,225
Danica d.o.o., Koprivnica	14,619	10,408	18,915	20,456
Ital-Ice d.o.o., Poreč	3,899	264	1,686	1,336
Podravka d.o.o., Ljubljana	89,393	90,778	3,269	2,264
Podravka d.o.o., Beograd	48,153	54,750	359	1,457
Podravka d.o.o.e.l., Skopje	37,591	36,859	284	172
Podravka d.o.o., Sarajevo	144,984	156,955	1,275	4,465
Podravka-Int.Deutschland-"Konar" GmbH	47,987	44,617	1,862	1,747
Podravka-International kft, Budapest	13,370	14,720	568	574
Podravka-International Pty Ltd, Sydney	29,382	21,622	1,431	1,001
Podravka-International s r.o., Zvolen	13,768	13,039	273	23
Podravka International, Turkey	3,790	1,033	-	-
Podravka-Polska Sp.z o.o., Kostrzyn	9,272	7,156	7,687	7,006
Podravka d.o.o., Podgorica	27,413	28,732	364	3,018
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	11,310	11,896	936	363
Other companies	-	12	767	252
Total related party sales	**495,356**	**493,281**	**52,054**	**65,359**

NOTE 39 – RELATED PARTY TRANSACTIONS (continued)

Investment revenue

	2010	2009
	(in thousands of HRK)	
Interest income	18,772	18,569
Profits of subsidiaries	15,143	26,663
	33,885	**45,232**

EXPENSES

Remuneration to the Management Board members and executives

	2010	2009
	(in thousands of HRK)	
Salaries	17,207	20,381
Share options through income statement	(2,512)	2,016
	14,695	**22,397**

LOAN RECEIVABLES

Loan receivables – long-term:

	2010	2009
	(in thousands of HRK)	
At beginning of year	286,758	304,015
Increase during the year	-	269,221
Repayments received	(28,420)	(67,714)
Other movements	(39,528)	(218,689)
Foreign exchange difference	6	(75)
At end of year	218,816	286,758
Maturity: one year or less	(57,283)	(67,942)
	161,533	**218,816**

NOTE 39 – RELATED PARTY TRANSACTIONS (continued)

Loan receivables – current:

	2010	2009
	(in thousands of HRK)	
At beginning of year	797	-
Increase during the year	7,007	2,408
Repayments received	(4,000)	(500)
Other changes – write-offs	(1,804)	(1,115)
Foreign exchange difference	-	4
At end of year	2,000	797
Maturity: one year or less	57,283	67,942
	59,283	**68,739**
Total loan receivables	**220,816**	**287,555**

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

	Interest rate	2010	2009
		(in thousands of HRK)	
Belupo d.d., Koprivnica	7% p.a.	215,377	269,221
Danica d.o.o., Koprivnica	7% p.a.	5,439	17,197
Podravka-International kft, Budapest	7% p.a.	-	340
Podravka International, Turkey	7% p.a.	-	797
		220,816	**287,555**

The effective interest rate is 7.00 % p.a.

The maturity of long-term borrowings is as follows:

	2010	2009
	(in thousands of HRK)	
Between 1 and 2 years	53,844	57,284
Between 2 and 5 years	107,689	161,532
	161,533	**218,816**

NOTE 39 – RELATED PARTY TRANSACTIONS (continued)

BORROWINGS

	Effective interest rate 2010	Effective interest rate 2009	2010	2009
			(in thousands of HRK)	
KOTI Nekretnine d.o.o., Koprivnica	5%	5%	1,126	1,071
Poni trgovina d.o.o., Koprivnica	5%	5%	263	869
			1,389	**1,940**

TRADE RECEIVABLES AND PAYABLES

	Short-term trade receivables 2010	Short-term trade receivables 2009	Short-term trade payables 2010	Short-term trade payables 2009
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Belupo d.d., Koprivnica	14,481	37,809	411	444
Danica d.o.o., Koprivnica	46,121	31,998	23,786	25,368
Lero d.o.o., Rijeka	10,647	25,750	9,917	9,502
Poni trgovina d.o.o., Koprivnica	69	-	-	-
Podravka Inženjering d.o.o., Koprivnica	449	88	664	2,066
Ital-Ice d.o.o., Poreč	290	183	9,180	6,646
Podravka d.o.o., Ljubljana	26,763	31,450	10	5
Podravka d.o.o., Beograd	45,000	47,779	-	155
Podravka d.o.o.e.l., Skopje	20,379	17,177	1,595	429
Podravka d.o.o., Sarajevo	58,675	74,675		-
Podravka-Int.Deutschland-„Konar“ GmbH	20,313	18,573	1	2
Podravka-International kft, Budapest	6,458	9,510		-
Podravka-International Pty Ltd, Sydney	4,400	5,171		-
Podravka-International s r.o., Zvolen	5,054	5,113		-
Podravka International, Turkey	3,831	458		-
Podravka-Polska Sp.z o.o., Kostrzyn	4,211	5,132	341	290
Podravka d.o.o., Podgorica	14,552	12,499		-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	4,396	3,809	500	23
Podravka-International Inc. Wilmington	-	12		-
Total trade receivables and payables – Group entities	**286,089**	**327,186**	**46,405**	**44,930**

NOTE 39 – RELATED PARTY TRANSACTIONS (continued)

OTHER RECEIVABLES

Receivables from related parties in respect of profit distributions

	2010	2009
	(in thousands of HRK)	
Belupo d.d., Koprivnica	-	17,297
Podravka d.o.o., Podgorica	1,477	-
	1,477	**17,297**

Other receivables from Group entities

	2010	2009
	(in thousands of HRK)	
Belupo d.d., Koprivnica	52,840	22
Danica d.o.o., Koprivnica	36	125
Podravka-International kft, Budapest	-	15
	52,876	**162**

(Receivables from Belupo d.d. in the amount of HRK 52,840 thousand relates to overdue receivables from long-term loans in the country of which HRK 39,528 thousand of principal and HRK 13,312 thousand of interest on the loan).

GUARANTEES AND WARRANTIES

Guarantees and warranties to related companies

	2009	2009
	(in thousands of HRK)	
Belupo d.d., Koprivnica	105,063	132,420
Danica d.o.o., Koprivnica	55,312	86,246
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	44,517	51,323
Podravka-Polska Sp.z o.o., Kostrzyn	-	33,332
Podravka-International s r.o., Zvolen	-	6,210
Podravka d.o.o., Belgrade	2,479	991
Podravka d.o.o., Ljubljana	1,699	1,242
Podravka-International S.R.L., Bucuresti	481	476
	209,551	**312,240**

NOTE 40 – CONTINGENT LIABILITIES

	2010	**2009**
	(in thousands of HRK)	
Legal proceedings	3,692	4,516
Guarantees – external	14,376	12,914
Guarantees – Group entities	209,551	312,240
	227,619	**329,670**

With respect to other legal proceedings and guarantees given, no contingent liabilities were recognised in the statement of financial position as of 31 December, as Management estimated that as at 31 December 2010 and 2009 no contingent liability would arise for the Company.

NOTE 41 – COMMITMENTS

In 2010, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 3,825 thousand (2009: HRK 1,250 thousand), which are not yet realised or recognised in the statement of financial position.

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

	2010	**2009**
	(in thousands of HRK)	
Not later than 1 year	19,970	29,848
Later than 1 year and not later than 5 years	11,957	37,857
Thereafter	-	2,550
	31,927	**70,255**

NOTE 42 – SUBSEQUENT EVENTS

On 4 February 2011, a second tranche of the commercial papers was redeemed. The total nominal amount of the tranche is HRK 130,000 thousand and was redeemed by use of syndicated loan described in Note 33.

NOTE 43 – APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved by the Management Board and authorized for issue on 10 March 2011.

Miroslav Vitković

President of the Board