TABLE OF CONTENTS

Impressum:

For publisher: **Podravka Group**
Desing and prepress: **Design Studio Podravka d.d.**
Translation: **Corporate Communications**

INTRODUCTORY STATEMENT FROM THE MANAGEMENT BOARD PRESIDENT

Dear shareholders,

business year 2010 was a significant year for Podravka Group, with numerous changes which have, I believe, given the company an additional boost. Despite the recession, continued decrease of purchasing power and more rational shopping present with the citizens, we have managed to maintain consumer trust, strengthen the employment security of our employees and have invested significant efforts in order not only to preserve our market positions, but also to create good preconditions for the future.

I have often pointed out that Podravka is a stabile company, which was undoubtedly proven. There are many reasons that today I can say with satisfaction that I have managed to make positive breakthroughs. Let me remind you that in 2010 we continued to grow sales in foreign markets, we have successfully faced crisis in Croatian market, applying more efficient business in all organizational units. We have offered new products to our consumers, and we have proved our business partners that with our help they can safely and reliably reach their goals.

During 2010 we have continued the optimization process, contributing to continuous costs reduction. Operating costs continued to decrease owing to the introduced control mechanisms, especially in the area of general and administrative costs. We have achieved significant positive progress on all profitability levels, reorganized business on a micro level, results of which are advanced business processes and eventually, more rational costs management. There is still room for improvements, and we will strive to justify every business activity that we will be undertaking in the future, to our employees, consumers but also to the overall public focused on Podravka, caring for the company at the same time.

In the end, I would like to say that we will continue to work on goals set, which means further expansion in the region, to new markets and investments in new production capacities. Our shareholders trusted us, supported us in times when every good intention was more than needed, so I believe such trend will continue in the upcoming period, especially due to the fact that we were very successful in 2010.

In 2011 we will show the strength of Podravka and great significance of its brands that is has for all of us.

Management Board President

Miroslav Vitković

PODRAVKA GROUP IN 2010

BUSINESS EVENTS

Payment on backed bill issued to Fima Grupa d.d.
Pursuant to the Capital Market Law and the Rules of the Zagreb Stock Exchange, on 25th January 2010 Erste Factoring d.o.o. called Podravka d.d. as the Guarantor to pay its liabilities from the Financing contract based on a backed bill, signed with Fima Grupa d.d. (as the Client) and Podravka d.d. (as the Guarantor), amounting to HRK 102.7 million. For this amount reservations were made in the financial reports for 2009. Podravka d.d. started a procedure to collect the amount in question from Fima Grupa d.d., i.e. its legal successors.

Second installment of Podravka commercial notes issued
On 8 February 2010 Podravka d.d. successfully issued the second installment of commercial notes where Raiffeisenbank Austria d.d. (RBA) was the dealer. Total nominal amount of this installment is HRK 130 million, return 9.15%, issue price 91.638 %, maturity 364 days. This second installment of Podravka commercial notes caused great interest of numerous institutional investors, the most significant among which are pension and investment funds and insurance companies. Offers received exceeded the amount of the installment, and the funds were used to refinance the first installment issued in February 2009. Total value of Podravka d.d. commercial notes issuing program is HRK 350 million.

Studena for the fifth year in a row title sponsor of "Studena Croatia Open" tournament
Podravka's brand Studena was for the fifth year in a row title sponsor of the tournament "Studena Croatia Open". Sponsoring contract was signed by members of the Management Boards, for Podravka Marin Pucar and for Istraturist Željko Kukurin. Long-year successful cooperation between Podravka and Istraturist made "Studena Croatia Open Umag" one of the most significant social events in Croatia.

General Assembly of Podravka d.d. held
At the General Assembly of shareholders of Podravka d.d. held on 25 March 2010 in Koprivnica, the following resolutions were made: recall of the president and deputy president of the General Assembly of Podravka d.d. and resolution on electing the president and deputy president of the General Assembly of Podravka d.d – pursuant to draft proposals by the Management Board and Supervisory Board of Podravka d.d and as published in the invitation to the General Assembly.

Podravka d.d. share included in blue chip index of the Zagreb Stock Exchange
As of 29 March 2010 Podravka share is listed among the blue chip index CROBEX10© of the Zagreb Stock Exchange. The first review of the index was performed by the Index Commission on 11 March 2010, based on the trading data for the period from 1 September 2009 to 28 February 2010, proving that Podravka's share satisfied the terms to be included in the index.

Investors Day held at Podravka
For the first time Podravka Group organized an Investors Day. Among the interested investors there were representatives of pension and investment funds, but also brokers and analysts tracking Podravka Group. Investors were given the opportunity to get to know better the Management Boards of both Podravka d.d and Belupo d.d. This way Podravka d.d. for the first time presented itself together with Belupo d.d., that has provided insight into its business and presented trends and regulations in the Croatian market of pharmaceuticals.

Supervisory Board resolutions
At Podravka d.d. Supervisory Board session held on 31 May 2010, Supervisory Board made a resolution on appointing Podravka d.d. Management Board president and members.
Former president Miroslav Vitković was reappointed, while Management Board members appointed were Lidija Kljajić, Krunoslav Bešvir, Marin Pucar and Miroslav Repić.
Branko Vuljak ended his term as Management Board deputy member and reactivated his term as Podravka d.d. Supervisory Board member.
The terms of the appointed president and members of the Management Board of PODRAVKA d.d. started as of the day of their appointment.

Superior Taste Award for Podravka's products
Superior Taste Award 2010 was given to Podravka's Studenac, Ajvar mild, Lino lada, Doughnut mix, Corn bread mix and Bread mix with seeds. Studenac mineral water was rated with maximum three star grade and was placed in the category of products with supreme taste and quality.

Vegeta Natur awarded in Poland
Vegeta Natur was proclaimed Hit FMCG product for 2010 in Poland, as selected by the influential merchants magazine Życie Handlowe. Vegeta Natur became thus the product with the biggest profit potential in the market of Poland. In choosing Hit FMCG, the jury considers originality and the quality of product, its availability in stores, price, packaging and sales support.

General Assembly of Podravka d.d. shareholders held
At the General Assembly of Podravka d.d. shareholders held on 31 August 2010 in Koprivnica, recalled Supervisory Board members were Darko Tipurić and Branko Vuljak, and a resolution was made on electing the following Supervisory Board members: Dubravko Štimac, Dinko Novoselec, Petar Vlaić and Petar Miladin. Apart from these, resolutions were also made on amendments of Podravka d.d. Articles of Association and other resolutions pursuant to draft resolutions suggested by Company Management or Supervisory Boards.

Podravka soups winners of Trusted Brand 2010
Podravka soups received "Trusted Brand 2010" award. Such was the decision of the readers of Reader's Digest in Croatia who have been evaluating during May and June 2010 brands they trust the most.

OTP bank – notice
Podravka d.d. received a notice on Put Option whereby OTP Bank informs Podravka d.d. on its intention to use the Put option for 10.65 % shares of the issuer Podravka d.d., the holder of which is FIMA AMI Ltd. At the same time OTP Bank informed Podravka d.d. that it activated the Call Option for option shares held by FIMA AMI Limited, and intends to acquire the shares in question.

Croatian consumers evaluated Podravka's products as the best ratio of price and quality
Podravka is the best Croatian company for price and quality ratio of its products, as evaluated by the Croatian consumers, awarding it thus the Best Buy Award. Apart from being evaluated as the best company, Podravka has won the Best Buy certificates for the following categories of products: Ready-made meals (canned), Food seasonings, Packet soups, Canned vegetables, Canned fruit, Fish cans, Breakfast cereals, Condiments.

Podravka starts Beef Goulash production in America
In late 2010 Podravka started the production of Beef Goulash in the USA (Richmond, Michigan). Podravka's popular Beef Goulash is produced today in America according to its original recipe and recognizable brand as it is being sold in Croatia, numerous European countries and Australia. With this project Podravka enriches a wide range of its products in American and Canadian markets, increasing thus the sales and export of Croatian products.

Web Fest award for Coolinarika
Podravka's Coolinarika.com was proclaimed the best web site in the Magazines category, also winning third place in Grand Prix race with the subject "Everything is on the Web". Web Fest is the biggest regional Internet festival dedicated to selecting the best regional web site or web project, as well as promotion and advancement of global electronic network in these areas.

Resolution on refinancing Podravka d.d.
Podravka d.d. Management Board made a decision to refinance short-term credit liabilities borrowing EUR 100 million via syndicated loan with five year term.

PODRAVKA GROUP RESEARCH AND DEVELOPMENT

Podravka's product research includes 11 specialist departments and offices covering the most important technological and business areas in food industry: food and food seasonings; sweets, snack and mill and bakery products; fruit, vegetables, condiments and side dishes; baby food, sweet spreads and breakfast cereals; beverages; meat and meat products; fish; raw base; sensoring and nutritionism, technology development and packaging development. Basic activities of these departments are focused on development of new products and advancement of the existing ones.

Product development department participates in devising products, from the initial idea, through building product proposal, test production to final product design, compliant to market demands and applicable legislature. But development work does not end here, it continues through tracking the product throughout its life span. Except for developing products in development units, production and control processes are constantly being improved. It is with particular attention that we track the development of science in food industry, consumer trends, and products are constantly aligned with current awareness of regular and healthy diet.

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

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

Belupo develops, perfects and produces medicines (prescription and over-the-counter products), dietetic products and medical cosmetic products. Development tasks are performed in the new modern pilot-laboratory built according to the good manufacturing practice, and the quality and stability of the development products are tested in the laboratories having state-of-the-art analysis equipment. During 2010 laboratories were expanded by rearranging old laboratories by Quality Control department and acquiring new equipment, a major number of new HPLC and UPLC devices. Apart from developing new products, intense efforts were invested in transferring technologies for existing products portfolio and implementing active substances of new suppliers into existing products.

Over 2010 seven new brands were launched to the market, along with eleven extensions of the existing ones, enriching Belupo's portfolio with seven new active substances in 24 different doses and 31 package size. Of 24 new doses, there is 18 new prescription medicines, 4 over-the-counter, and one new product in groups of dietetic products and medical cosmetics. They are products having effect on cardiovascular, nervous, respiratory, bones and nerves system and antibiotics.

NEW PRODUCTS IN 2010.

Vegeta seasonings

Vegeta seasonings are new products in food seasonings category, launched to the market of Poland in 2010. The range includes 15 seasonings for the most popular traditional Polish, but also world meals – Vegeta for seasoned chicken, Vegeta for chicken, Vegeta for grill, Vegeta for piquant grill, Vegeta for sashlik, Vegeta for minced meat, Vegeta for bigos, Vegeta for fish, Vegeta for tripes, Vegeta for goulash, Vegeta for pork, Vegeta for kebab, Vegeta for Italian meals, Vegeta for Chinese meals, Vegeta for Mexican meals.

Vegeta Natur seasonings

A range of Vegeta Natur seasonings was also launched to the market of Poland, consisting exclusively from natural and specially selected ingredients – aromatic herbs, dried vegetables and fresh seasonings. Products contain no artificial additives, flavour enhancers or preservatives. The range includes: Vegeta Natur for chicken with seasonings, Vegeta Natur for golden chicken, Vegeta Natur for grill, Vegeta Natur for vegetable grill, Vegeta Natur for potato meals, Vegeta Natur for toast, Vegeta Natur for salads, Vegeta Natur for fresh cheese, Vegeta Natur for mozzarella and tomato, Vegeta Natur for mushroom meals.

New premium puddings

Pudding Chocolate Premium and Pudding Bourbon Vanilla are two new premium puddings in Dolcela range. Pudding Chocolate Premium is comprised of the perfect combination of cocoa and chocolate, and Pudding Bourbon Vanilla Premium is a creamy treat with natural aroma of bourbon vanilla completed by fine chunks of ground vanilla pod.

Rum-sugar and Bourbon vanilla sugar

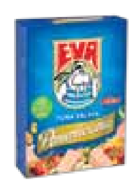
Rum-sugar is characterized by enchanting rum aroma. It can also be used as replacement for rum in cakes. Bourbon vanilla sugar is characterized by natural aroma and enticing scent of bourbon vanilla complemented by the grains of ground vanilla pod.

Honey

The range of Podravka honey is enriched with three new products. Linden honey is produced from linden tree flowers, it helps eliminate toxic substances from the organism and improves metabolism.

Flower honey is recommended for every day usage, for all those who need recuperation and additional energy. Its composition is diverse and rich, produced from nectars of various meadow plants. Acacia honey is produced from the flowers of the acacia tree, it has a soothing effect, helping with the insomnia and relieving stress.

Eva Tuna salad Americana



Eva Tuna salad Americana is prepared from carefully selected pieces of the finest tuna, where the best specimens of vegetables and seasonings from different world cuisines are united with tuna pieces and represent true delight for fans of modern cuisine. Eva Tuna salad Americana contains exclusively natural ingredients and is a source of omega-3 fatty acids and proteins.

Lupocet flu forte

Lupocet flu forte is an over-the-counter medication intended to suppress symptoms of influenza and flue such as running and itchy nose, tearful eyes, hoarse voice, cough, headache, fever and exhaustion. Lupocet flu forte contains three active substances exhibiting various effects: paracetamol, chlorpheniramine and vitamin C (ascorbic acid).

Vegeta marinades

Vegeta Marinade Universal, Vegeta Marinade Piquant, Vegeta Marinade Mediterranean and Vegeta Marinade Garlic are intended for all those wanting a modest and ideally rounded taste of meat and fish meals, goulash, paprikash and vegetable stews. Owing to excellent combination of oil and vinegar, dried vegetables and spices, Vegeta marinades are a guarantee of irresistible taste of your barbeque, roast and similar. Products contain no preservatives, flavour enhancers or aromas.

Soups with duo balls

Soup with vegetable and semolina balls has a distinct vegetable taste due to increased amounts of vegetable and two kinds of balls. Soup with meat and semolina balls is a clear beef soup containing characteristic beef meat balls and semolina balls. It is also rich in vegetables. Soup with liver and semolina balls is a clear beef soup rich in vegetables and characteristic for liver balls combined with semolina balls giving this soup a special taste.

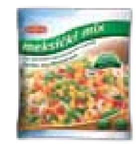
Pizza ketchup

Pizza ketchup is made from healthy and ripe tomato with carefully selected ingredients, intending to satisfy even the most demanding tastes. It can be used for preparing pizza, for many simple, fast, delicious and healthy meals, for preparation of warm and cold sauces, for topping cooked vegetables, pasta, rice or simply as a dip for raw vegetables, spring rolls, crackers, snack.

Grill mustard
Grill mustard is produced from characteristic mustard ingredient with added aroma of smoke. Grill mustard is a multi purposeful product that can be used as a side dish with white meat, dark meat, sausages and hot dogs, and it can also be used to marinate meat before baking.

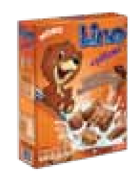
Fine chopped tomato
Fine chopped tomato with garlic and parsley is produced from ripe, juicy fruits of attractive red colour and true domestic flavour, with added olive oil, fine chopped garlic and parsley. Fine chopped tomato with capers and oregano is produced from tomatoes with added olive oil, capers, oregano and chilly. The products are intended for all those who do not have much time for traditional preparation of meals with tomatoes, but want to enjoy the full flavour of tomatoes and piquant taste of herbs.

Mexican mix
Fast frozen mixed vegetable as a side dish. Ingredients of Mexican Mix are sweet corn, tomato, green string beans, onion, red peppers, green peppers.



Lino baby food
The range of Lino baby food is expanded with two new products: Lino Vanillino flakes have an irresistible vanilla flavour, 7 vitamins and white chocolate. Lino keksolino apple is a delicious combination of cereals, biscuits and real apple, with 9 vitamins and calcium.

Lino Pillows breakfast cereals
Lino pillows are an excellent choice to start your day and enjoy the unique taste provided by the combination of finest quality cereals and crispy pillows filled with cocoa cream.



Fant world cuisines
The range of Fant cooking aids is enriched with four new products. Fant mix for chilli con carne is an ideal base to prepare a spicy meal. Fant mix for meat with vegetables in wok will help you prepare an exotic meal in a simple way. Fant mix for stewed vegetables Ratatouille will help you prepare vegetable specialties, and it contains a combination of various vegetables and selected seasoning herbs. Fant mix for Stroganoff is an ideal base for preparing renowned Russian meal Stroganoff.

New Eva fish cans
Eva tuna solid in brine is prepared from tuna pieces in own juice, brine without the usual added oil. The natural taste of tuna is thus best manifested and low fats make this product close to consumers that prefer mild taste and light food. Eva salmon fillets in olive oil is a high quality product containing carefully selected salmon fillets canned in fine olive oil. Eva mackerel fillets in olive oil is a tasty and quality product consisting of hand cut and filled mackerel fillets with added olive oil.

Dolcela Bohemian cake
Bohemian cake is a fast frozen desert from crust pastry with added hazelnuts and vanilla flavoured stuffing. Preparation of this dessert in a classic way takes up a significant amount of time, while Podravka's Bohemian cake makes it all much simpler, but equally tasty and delicious.

Lupocet effervescent tablets
Lupocet is a medication having analgetic (pain medications) and antipyretic (temperature reduction) effect. Lupocet effervescent tablets are intended for relieving pain of various origin: headache, toothache, flues, pain connected to any nerve, nerves inflammation, inflammatory damages to peripheral nerves, ishialgia, muscular rheumatism, after surgical pain and injuries and for reducing increased body temperature.

Vegeta mixes
Having developed three new Vegeta mix products – garlic, pepper and chilli - Podravka innovatively expands the range of food seasonings, substituting the use of individual seasonings. Vegeta mix products provide a wide range of culinary solutions, and they were first launched to the market of Austria. At the same time Vegeta sweet paprika mix was launched to the market of Croatia.

Provita muesli

Provita breakfast cereals has three new products in this category. Crunchy muesli with honey are crunchy oat flakes containing valuable nutrients combined with honey. Crunchy muesli with fruit are oat flakes prepared according to a special recipe for true fruit fans. Crunchy muesli with hazelnuts and almonds contains a combination of hazelnuts and almonds, and crunchy oat flakes provide an irresistible crunchy morning delight.

Olive oil

Olive oil for every day is a mild mixture of extra virgin olive oil and refined olive oil intended for every day preparation of various meals.

Olive oil is of mild taste and aroma intended for consumers not used to specific strong taste of virgin oils.

Extra virgin olive oil is the best quality olive oil produced from finest olives exclusively by mechanical procedures. It is the most esteemed among olive oils, the richest with aroma and biologically valuable substances.

Eva tuna spread

Eva tuna spread classic is an exceptionally tasty and practical product for all fans of seafood. It is prepared from the finest tuna filets carefully combined with seasonings providing unforgettable taste.

Extrawurst and Piquantwurst

Mild taste of the Extrawurst salami will perfectly complete your breakfast or brunch. Piquantwurst is enriched with pieces of red and green paprika. Delicious taste will satisfy the palates of the most demanding consumers.

Garlic sausage, Domestic spicy sausage, Domestic smoked bacon

Garlic sausage, Domestic spicy sausage and Domestic smoked bacon are prepared according to a traditional domestic recipe. Domestic smoked bacon is a traditional continental product, seasoned and smoked according to an original recipe from Podravina.

Piquant pate

Piquant pate is made from the finest quality chicken meat, without preservatives and artificial aromas. Selected combination of vegetables and seasonings provides this product with a pleasant piquant taste.

Neofen spray

Neofen spray relieves pain, reduces swelling and inflammation. It induces the sense of cooling and settling the aching point. It is used in treatment of painful and inflammatory conditions of muscular and nervous system, including back pain, rheumatic and muscular pain, dislocations and neuralgias (painful nerve damages). It is also indicated for symptomatic relieving of pain of mild forms of arthritis. It is intended for external application.

Instant teas

Instant teas are characterized by fast and simple preparation, and the range includes four tastes - Instant green tea with added real lemon juice, Instant yellow tea with mango and lichi taste, Instant mate tea with orange and guarana taste and Instant black tea that besides real tea extract also contains powder cinnamon and real honey providing tea with special taste.

Lerovita red grapefruit

Refreshing drink with rich grapefruit flavour enriched with 9 vitamins. One glass of this beverage completes 50% of recommended daily allowances for added vitamins. Lero instant drink red grapefruit quenches thirst in hot summer days, and in winter time it revives the body worn down by cold.

Aronia marmalade

Aronia marmalade brings you a completely new bitter sweet taste, and its quality is aligned with the line of renowned Podravka marmalades. Contains no preservatives, artificial colours nor added aromas.

Jam extra black currant

It has a high fruit content, 45 g fruit per 100 g of finished product and reduced sugar level, as much as 30%. The product is prepared without preservatives, artificial colours and sweeteners.

SUPERVISORY BOARD AND MANAGEMENT BOARD MEMBERS BIOGRAPHIES

PODRAVKA D.D. SUPERVISORY BOARD MEMBERS BIOGRAPHIES

Ljubo Jurčić

Supervisory Board President

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

Ksenija Horvat

Supervisory Board Deputy President

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

Dubravko Štimac

Supervisory Board Member (till 20 July 2010 and since 7 September 2010)

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

Dinko Novoselec

Supervisory Board Member (since 7 September 2010)

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

Petar Vlaić

Supervisory Board Member (since 7 September 2010)

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

Petar Miladin

Supervisory Board Member (since 7 September 2010)

He graduated from the Faculty of Law in Zagreb. He passed his bar examination in 1999, when he also receives his MA from the Faculty of Law in Zagreb. He defended his doctoral dissertation "Payment by remittance" on 27 January 2005 at the Law faculty of the Zagreb University, receiving his PhD in scientific field of law. He is employed at the Law Faculty in Zagreb in 1997 as a junior assistant at the Department for Commercial Law and Companies Law. In December 1999 he becomes the assistant at the same department where he works as a senior assistant from 2005. He works as an assistant professor at the Faculty of Law in Zagreb since 15 December 2005 and since 1 April 2009 he is full professor. He published over twenty scientific works in the area of commercial law, companies law and banking law.

Karmen Antolić

Supervisory Board Member

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

Miljenko Javorović

Supervisory Board Member

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

Nikola Gregur

Supervisory Board Member

He graduated from the Faculty of Economy and Business at the Zagreb University. Since 1978 he has been working in Sloga Koprivnica shoe factory, and his last position was assistant director for accounting and finance. Since 1990 he is the Executive Council President for Koprivnica county and the war president of Koprivnica county Emergency center. After the county was formed in 1993 he becomes deputy county head and remains in that position till 1997 when he is the head of the Koprivnica-križevci county, carrying that duty till 2001. In 2002 he is an adviser to Belupo Management Board President, and since 2004 he is the director to Croatia osiguranje d.d. Koprivnica branch office.

Dražen Sačer

Supervisory Board Member (till 20 July 2010)

He graduated from the University of Zagreb School of Medicine. He completed his postgraduate study in the area of rheumatology at the same school. He gained his work experience in the Public Health Institute in Koprivnica, in general hospital "Dr. Tomislav Bardek" in Koprivnica and in private medical practice. He is currently working at his own private office. He published a dozen research papers, he participated in numerous congresses, symposiums and seminars in Croatia and abroad. He is the physician of the Podravka handball club from 1988 and a member of the Podravka d.d. Shareholders Association Assembly since 2000. He worked for two terms as a member of the Central committee for the Croatian Red Cross and since 1996 he is the president of the Red Cross Association of Koprivnica.

Branko Vuljak

Supervisory Board Member (from 1 June 2010 till 7 September 2010)

He graduated in 1981 from the Faculty of Electrical Engineering in Zagreb. Afterwards he completes General Management Program at IEDC Bled School of Management, Podravka's Management Academy, Leeds Metropolitan University and University of Cambridge (BEC Vantage). He is employed at Podravka in 1981 as an engineer at the computer center, in 1996 was appointed director of that department and in 1997 is transferred to the Procurement department where he works as central procurement sector director. Since 2010 he is Podravka d.d Management Board member adviser.

Darko Tipurić

Supervisory Board Member (till 7 September 2010)

He graduated from the Faculty of Economy in Sarajevo in 1989, and received his Master's degree from the postgraduate study of Business Economy at the Faculty of Economy in Sarajevo in 1991. In 1993 he defended his doctor's dissertation "Interorganizational relations in marketing channels" at the Faculty of Economy and Business in Zagreb. In 1991 he attended specialized training in organizational behaviour in Vienna (Wirtschaftuniversität and University of Kentucky). Since February 1993 he is employed at the Faculty of Economy and Business in Zagreb, Organization and Management department, first as an assistant.

Over the years he is senior assistant, then is elected educational and scientific vocation of senior lecturer, then associate professor and then full time professor. Since 2002-2004 he was the assistant-dean for international cooperation and economic relations, since 2004 – 2006 he was vice-dean and in the mandates 2006 – 2008 and 2010 – 2010 he is the dean of the Faculty of Economy and Business in Zagreb. He is a member of several international professional and scientific associations, of the main board of Croatian Association of Economists and honorary President of the Croatian Association of Certified Supervisory Board Members.

PODRAVKA D.D. MANAGEMENT BOARD MEMBERS

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

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

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

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

Miroslav Repić

Management Board Member (since 1 June 2010)

He graduated from the Faculty of Food Technology and Biotechnology in 1986. He also finished several business modules and seminars at IEDC Bled Business School and many expert seminars. During his career he attended several internal seminars organized by Podravka with the purpose of expanding professional knowledge and management skills. Having graduated, he found his employment at Podravka where he works even today. He performed the tasks of lead technologist at the Yeast factory, then he was the director of the Yeast factory, and among other functions within Podravka, he was also the head of joint venture project with Elite International B. V., Holland, in the coffee production business, and head of the yeast business disinvestment project. After that he was the director of Central European Market sector in the period from 2004 to 2005. He was the Production sector director from 2005 to 2008. Since 2008 until he is appointed member of Podravka Management Board, he is responsible for "business to business" product categories intended for big industrial buyers at Podravka level and for the entire process of tendering, contracting and realization of service production. He was appointed Podravka d.d. Management Board member on 1 June 2010.

Branko Vuljak

Management Board Member (till 1 June 2010)

He graduated in 1981 from the Faculty of Electrical Engineering in Zagreb. Afterwards he completes General Management Program at IEDC Bled School of Management, Podravka's Management Academy, Leeds Metropolitan University and University of Cambridge (BEC Vantage). He is employed at Podravka in 1981 as an engineer at the computer center, in 1996 was appointed director of that department and in 1997 is transferred to the Procurement department where he works to this day and Central Procurement sector director. His term as Podravka Supervisory Board member has been suspended since 23 October 2009 when he takes over the function of Management Board deputy member. Since 2010 he is Podravka d.d Management Board member adviser.

MANAGEMENT REPORT

BUSINESS RESULTS

Sales revenue of the Podravka Group amounted to HRK 3,522.3 million, which is 2% less compared to the same period of the year 2009.
The sales of the SBA Food and Beverages totaled HRK 2,778.1 million, which is 78.9% of the total sales of the Podravka Group and represents a sales drop of 2% compared to the same period of the year 2009. This drop results from a lower level of sales of the SBA Food and Beverages on the Croatian market (-7%) where unfavourable economic trends, a drop of economic activities and the growth of sales of cheaper products and trade brands were noticeable throughout the year 2010. Namely, the constant growth of unemployment in Croatia[1] had increased consumer pessimism with negative impact on domestic consumption. The prepared projects and innovations in the product portfolio, accompanied by the economic recovery of the European Union had positively affected the sales of the SBA Food and Beverages on foreign markets where the sales of the relevant SBA grew 3%. According to market groups, foreign markets which have recorded sales growth are the markets of Western Europe, overseas countries and the Orient (16%), with the most prominent markets of Australia (29%), Austria (28%) and Turkey (173%) and the markets of Central Europe (7%) with the highest growth of sales on the market of Poland (20%).

The SBA Pharmaceuticals achieved sales in the amount of HRK 744.2 million, which represents a sales drop of 1% compared to the year 2009. This drop results from a lower level of sales on the Croatian market (-6%) due to the drop of sales of prescription drugs (-7%) and OTC products (-8%). A new General and Additional List of Drugs was adopted in June 2010 by the HZZO[2] with lower prices of a large number of drugs which resulted in a lower level of sales of prescription drugs on the domestic market. The drop of sales of OTC products resulting from recession effects and weaker personal consumption had an additional impact on the sales of the SBA Pharmaceuticals in Croatia. The SBA Pharmaceuticals achieved sales increase of 8% on foreign markets, with the highest contribution from the markets of Russia (62%), Slovakia (22%), Turkey (180%) and Poland (131%).

Sales revenues per product groups

The BP Podravka Food suffered a 2% drop of sales compared to the same period of the year 2009. Sales of the product group Fruit and vegetable products, side dishes and other was slightly higher than last years' resulting from an increase of sales on the markets of Central Europe (18%), under the influence of higher sales of Tomato based products and Side dishes. The product group Baby food, sweets and snack achieved sales growth of 3% with the highest contribution from the markets of Slovenia (10%) and Bosnia and Herzegovina (6%). The sales drop of the product group Fish and fishery products of 10% was mostly influenced by a lower level of sales of the relevant product group on the markets of Serbia, Bosnia and Herzegovina and Croatia, respectively.

The sales growth of the BP Dishes and Food seasonings is on a slightly higher level than last year taken that the sales of the product group Food seasonings is 2% higher compared to the year 2009, while Podravka dishes suffered a 5% drop. The highest increase within this Business program was recorded on the market of Western Europe, overseas countries and the Orient (13%), with the highest contribution coming from the markets of Australia (36%), Turkey (129%) Austria (10%) and Canada (26%), respectively. A considerable growth of sales was also achieved on the market of Poland (13%), influenced by the entry into new categories of products, but also the recovery of the Polish zloty compared to HRK exchange rate (7%[3]), and on the market of Romania which recorded a sales growth of 9%.

Sales of the BP Meat increased by 2% generated by a higher level of sales in Croatia (2%) and a sales growth on the market of Western Europe, overseas countries and the Orient (20%) as a result of the sales growth of Canned ready-made meals and Liver paste.

The sales level of the BP Beverages is 16% lower compared to the year 2009 with the greatest impact on the sales fall coming from the Croatian market (-17%). A lower level of sales was also achieved abroad (-14%), resulting from a sales drop on the markets of Bosnia and Herzegovina (-11%) and Slovenia (-24%). Although this Business program recorded a decline in sales, the product groups of Beverage powders and Syrups recorded a sales growth on both domestic and foreign markets.

1. Total increase of unemployment was 15.4%; Source: Central bureau of statistics, Monthly statistics report, no. 12, 2010. (data for the period 1-11.2010)
2. Croatian Heatlth Insurance Institute
3. calculated on the average exchange rate base for the observed period

Sales revenues of the Podravka Group per markets [4]

The market of Croatia realised sales in the amount of HRK 1,741.3 million, which represents 49.4% of the total sales of the Podravka Group. Sales in the year 2010 suffered a 7% drop compared to the same period of the year 2009, resulting from a drop of sales of both the SBA Food and Beverages (-7%) and the SBA Pharmaceuticals (-6%). Namely, the entire year 2010 was characterised by a lower level of domestic demand due to negative trends which are still present in domestic economy and are reflected in a more cautious consumption by domestic customers.
The realized sales of foreign markets in the year 2010 amounted to HRK 1,781 million, which represents a 4% growth compared with the year before. Significant sales growth was achieved on all foreign markets except South-East Europe where recession trends are still strongly present keeping consumption at a lower level. The highest absolute sales growth was achieved on the market of Western Europe, overseas countries and the Orient (16%) with the highest contribution coming from the markets of Australia (29%), Austria (28%) and Turkey (175%), respectively. Significant sales growth was also recorded on the market of Central Europe (8%) based on sales growth on the markets of Poland (21%), the Czech Republic (2%) and Slovakia (2%). East-Europe realised a 20% higher level of sales generated by sales growth on the markets of Russia (25%) and Romania (14%). In contrast to positive trends in Central, Eastern and Western Europe and overseas countries, the market of South-East Europe recorded a sales drop of 5% as a result of lower sales on the markets of both Bosnia and Herzegovina (-7%) and Serbia (-12%).

Structure of operating costs / expenses

The operating costs/expenses of the Podravka Group in the observed period totaled HRK 3,278.3 million, which represents a 4% reduction of operating costs/expenses of HRK 133.6 million, respectively, compared to the same period of last year. Taken that the operating costs/expenses have declined for the second consecutive year, it can be concluded that cost management mechanisms are efficient especially in the part of General and administrative expenses.

The cost of goods sold is 3% lesser which correlates with the fall of sales revenue. The cost of manufacturing material (-1%) and employee costs (-2%) recorded the largest reduction within the cost of goods sold, while energy costs increased (10%).

Selling and distribution costs also dropped in the observed period and are HRK 19.3 million (-3%) lesser. This reduction results from lower sales force costs (-4%) and lower storage costs (-3%).

Marketing expenses increased 1% in the observed period and reached the amount of HRK 401.2 million, which mostly results from higher trade and BTL marketing expenses which had been planned as a response to the forecasted recession trends.

General and administrative expenses recorded a drop of HRK 52.6 million (-18%) in the year 2010 and have reduced their share in total operating costs/expenses from 8.8% to 7.6%. General and administrative expenses have steadily decreased over a period of two and a half years which has impact on the growth of profitability, despite lower levels of sales than planned. This decrease of General and administrative expenses is an expected positive effect arising from the reorganisation conducted in the SBA Food and Beverages and the implementation of efficient cost management mechanisms. Lower employee costs and lower costs of services and provisions were items that most significantly influenced the reduction of these expenses.

4. South-East Europe – Albania, Bosnia and Herzegovina, Montenegro, Kosovo, Macedonia, Slovenia, Serbia
Central Europe – Czech Republic, Hungary, Poland, Slovakia
Western Europe, overseas countries and the Orient – Austria, Australia, Benelux, France, Canada, Germany, USA, Scandinavia, Switzerland, Turkey, Great Britain and other overseas countries and Western European countries
Eastern Europe – Baltic countries, Romania, Russia, the Ukraine, Bulgaria, and other Eastern European countries

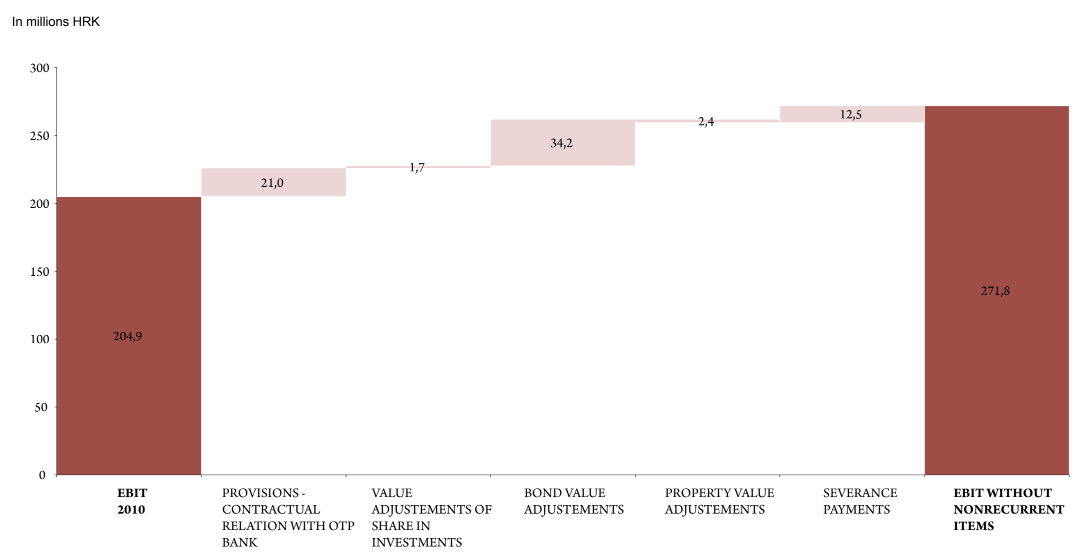
Profitability of the Podravka Group

Although the Podravka Group recorded lower sales in the year 2010 compared to the year before, significant positive progress has been made at all profitability levels as a result of improvement of business processes and more rational cost management. The gross margin increased by 80bp in the observed period due to the drop of cost of goods sold and is now 41.1%.
In the year 2010 extraordinary items reached HRK 66.9 million and refer to bond value adjustments in the amount of HRK 34.2 million (financial liability at fair value in the profit and loss account) and value adjustments of the share in investment funds in the amount of HRK 1.7 million, severance payments in the amount of HRK 12.5 million and provisions on the grounds of contractual relations with OTP Bank in the amount of HRK 21 million. Apart from negative extraordinary items there were also positive ones in the amount of HRK 2.4 million which refer to land value adjustments. Despite the aforesaid extraordinary items which negatively effected business results, the Podravka Group achieved operating profit in the amount of HRK 204.9 million and an operating margin at the level of 5.8%, while the net profit in the year 2010 was HRK 84.2 million.

A comparative analysis with the year 2009 showed that extraordinary items were HRK 481.3 million and the disclosed result of the previous year was adjusted for the amount of HRK 92.9 million, which refers to provisions based on the contractual relations with OTP Bank. Namely, until the disclosure of audited financial statements for the year 2009, the Management Board was not in possession of the complete documents nor was it possible to obtain relevant legal interpretations of the contractual relations which would clearly indicate the need to make provisions in the aforesaid amount.

The correction of operating profit for the above quoted extraordinary items has increased the level of operating profit to HRK 271.8 million, which represents a growth of 27% compared to the operating profit of 2009 disclosed in a comparable manner.
The corrected net profit in the observed period amounts to HRK 151.1 million, which represents a growth of 51% compared to the net profit of the year 2009 disclosed in a comparable manner.

The operating profit of the Podravka Group without nonrecurrent items



Profitability of SBA Food & Beverages

The gross margin of the SBA Food and Beverages in the observed period recorded an increase of 50bp which results from a change in the sales structure in favour of more profitable categories and savings achieved in manufacturing costs/expenses. The operating costs/expenses of the SBA Food and Beverages recorded a fall of 5% and within the structure of operating costs/expenses all costs/expenses declined.

Extraordinary items that burdened the operations of the SBA Food and Beverages in 2010 amounted to HRK 64.1 million, while extraordinary items for the same period of last year in this SBA amounted to HRK 470.9 million.

Comparison of corrected results shows that the operating profit grew by 55% and the operating margin is at the level of 6.2%, which represents a growth of 230bp. The corrected net profit is 113% higher compared to the net profit of the year 2009 disclosed in a comparable manner.

Profitability of SBA Pharmaceuticals

The SBA Pharmaceuticals recorded lower sales of prescription drugs within the sales structure due to lower prices which together with a lower level of sales of OTC products resulted in reduced sales of this SBA by 1%. At the same time, a drop of cost of goods sold of 4% occurred and the gross margin recorded a positive shift of 160bp. The drop of cost of goods sold is mostly contributed by lower costs of manufacturing material (-5%) and lower employee costs (-4%).

The operating profit grew by 5% which increased the operating margin by 13.2%. Lower financing costs (-4%) had positive effect on the growth of net margin by 110bp.

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated and audited financial reports by the Podravka Group for the period January – December 2010 have been prepared compliant to the Accounting Law of the Republic of Croatia and the International Financial Reporting Standards (MSFI) and provide an integrated and truthful insight in assets and liabilities, loss and profit, financial situation and business of the Group and all related dependant companies included in the consolidation.

The consolidated and audited financial reports by the Podravka Group for 2010 show the corrected liabilities and losses in 2009 deriving from business relations between Podravka d.d. and OTP Bank Nyrt from Budapest.

Accounting Director:
Draga Celiščak

Management Board member in
charge of Finance:
Lidija Kljajić

PODRAVKA GROUP EXPECTED DEVELOPMENT

Programs and markets to achieve growth

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

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

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

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

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

General strategic goals

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

Strategic guidelines

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

- **Human resources**
  - Compliant to Podravka's key values, building corporate culture and satisfied employees are a precondition to successful development, and employees are the biggest value of this company, the source of its competitive advantage.
- **Processes**
  - The focus of Podravka's growth and development is based on own brands and acquisitions, development of key brands, strategic alliances in distribution and other parts of the value chain.
  - Extending the product range in strategic business areas, particularly in strategic markets, product innovations and their added value.
  - Efficient marketing investments which are focused towards brands strengthening.
  - State-of-the-art world technology in the production of the overall product range, guaranteeing high quality of products.
- **Market**
  - Podravka is a food processing company focused on achieving the highest level of satisfaction of its clients and consumers.
  - Environment protection is one of Podravka's priorities, and it is implemented throughout the principles of sustainable development and clean production.
- **Finance**
  - In relation with the owners, the goal is to grow the return on capital and share value.

Key factors of success

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

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

2. Quality and image
Podravka has always been a synonym for high quality and supreme products – each product having the name Podravka is the result of many years of tradition, know-how and caring for the health and well-being of the consumer.

All the products and business processes are based on principles of quality management, and the satisfaction of clients and consumers is our main guideline. Podravka is obliged to satisfy the demands of clients and consumers and constantly improve the quality of products and business processes. Podravka is taking constant care on the sanitary validity and product safety, compliant to the legislature of the Republic of Croatia, European Union and all the countries with which it does business. Knowledge, expertise and constant care for employee education ensures innovated products and processes for the global market. The center of Podravka's activities is constant improvement of the management system.

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

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

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

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

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

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

Trends in food and beverages industry

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

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

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

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

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

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

In the last couple of years the consumers have been following the trend of active living, bringing the need to make the products healthy, available and that the consumers can select the kind of product that they like the most.

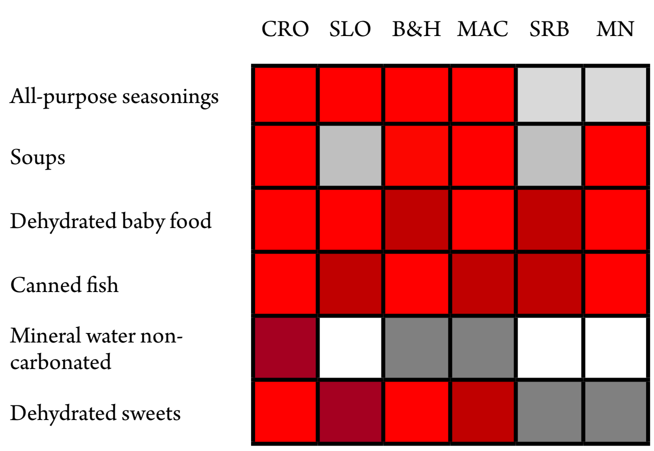
Increasing is the care for own health, so food industries follow the trends of organic products and raw materials, the offering of fresh fruit and vegetables, "natural" products with increased percentage of fruit and vegetables and increased trends related to development of products for strengthening the immune system and providing body with additional health benefit.

Emphasizing the need for individualism and caring for own well-being is a trend that has in the food industry been reflected through an increased influence of products that are "just for me" or "better for me" and the products focused on solving individual health issues.

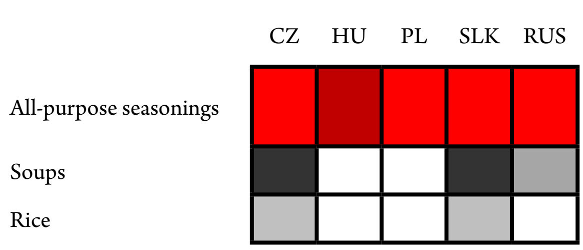
Due to increased globalization and information availability, consumers have developed a trend of diverse – both domestic and foreign cuisine, enjoying different and autochthonous meals and beverages.

Market positions of food categories in 2010

Croatia and other ex-Yu markets



Central Europe and Russia



Legend:

Market leader
2nd market position
3rd market position
Present in the market

Source: research panel (MEMRB, AC Nielsen)

RISK FACTORS

Business environment risk

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

Industrial risk

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

Competition risk

Importance of the food industry, food and beverages production sector, is also emphasized by the information on high share of this sector in the total industrial production. Food and beverages production traditionally takes the highest share in the total processing industry. Food industry is featured by constant and growing demand which is among other a consequence of life standard growth and eating habits change, causing also a powerful competition within the sector.
The potential and achieved growth rates in the food and beverages industry have largely affected the increase of competition in this sector. Besides, the present globalization process, political stability, development and liberalization of the markets, as well as the increase in living standards have greatly affected the removal of market boundaries and increase in the competition degree in the food industry. Additional effect of domestic companies being exposed to competition from large food processing companies derives from accessing the European Union.
Also, candidate countries aligning their legislature with acquis communautaire, and the countries included in the stabilization and accession process, gradually remove the obstacles in accession of these markets to the inner market of the European Union and place new standards and norms. The result of the stated processes is a high exposure of local food processing

companies to the global competition, creating simultaneously new business opportunities for local companies by fast opening of foreign markets. On the other hand, accession to the European Union and opening foreign markets to domestic companies such as Podravka, which already has a significant presence in foreign markets, opens the possibilities of further development, new business opportunities, strengthening market positions in the markets in the region. Also, to emphasize, food processing industry is also determined by local consumer and eating habits and needs, so domestic food processing companies, such as Podravka, that continuously works on advancing the quality of its products and extension of its range, they manage not only to maintain, but also to strengthen its business and market position in the domestic market.
As a company with a defined development and investment strategy, Podravka has the strengths needed to successfully adapt to competition demands of the domestic and foreign market.

Risk of trade

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

Business risk

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

Risk of management and staffing

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

Ecologic risk

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

SUSTAINABLE DEVELOPMENT

Podravka Group works in compliance to norms and demands of socially responsible business, i.e. in line with the business principles of long term sustainable development. Guided by the stated principles, in its every day operations and through all activities Podravka Group promotes and encourages the application of norms and demands proposed by socially responsible business and compliance of economy with developmental goals of the community, and preservation of the environment for future generations.
Podravka Group's mission is to do business in the interest of clients and consumers and within Croatian Business Council for Sustainable Development (HRPSOR) specific activities are taking place which influence the existing legislature, exchange of practical experiences and encouragement of HRPSOR members to actions with the goal of improving the standards of the social community.

Reduction of energy consumption which are continuously being performed directly influence prices per unit of product, reducing at the same time the greenhouse gasses emissions, contributing thus to environment protection. Compliance to Kyoto protocol is in progress and the work of energy facilities has been analysed. Report verification is expected in mid 2011. We apply the same approach to water as one of our most precious resources, where the trend of water consumption reduction is constantly present, meaning also reduced costs and less waste water released into the environment. Waste water is being released in the public sewage where the parameters and Rulebook allow for it, and Danica industrial zone has successfully implemented a water treatment device. Allowed emissions control is under constant supervision by our expert services and authorized government institutions and in line with that Podravka Group completely fulfills all obligations proscribed by laws and regulations on allowed concentrations of released emissions, and the substances that damage the ozone layer are completely removed from use. The technological process and its organization directly affects minimal burdening on the waste waters, creation of waste and its provision and energy loss in the process, and the measures of "clean production" are constantly applied.
We are constantly working on innovating the quality and declarations of our products, compliant to regulations in the markets where we operate. Like other successful and reputable world companies, continuous goal of Podravka Group, apart from profit, is to contribute to the advancement of society and life of the citizens, i.e. socially responsible business. In all the environments where Podravka Group operates it has proved to be a desirable social partner who takes care of the community.

Employees are one of the keys to company's success and are the most important building blocks of Podravka Group's competitive advantage on the market. Innovative and dynamic corporate culture that respects individuality at the same time, but encourages team work is exceptionally important for successful business in multicultural international context. As a company, Podravka Group is aware of the importance of selecting the best employees at all the levels and of the continuous investment in their development.
On the other hand, the difference of national and business cultures enrich the entire business adapting it to global changes.
The workers have been regularly informed through corporate Intranet site, two-weekly newsletter "Podravka" and monthly newsletter of Belupo "Glasilo". Apart from these channels of reporting about the activities in the company, in 2010 the workers have been given the opportunity to participate and get information at workers gatherings where the Management Board and the executive management inform the employees on business results, important events and company plans for the upcoming period. In 2010 such transparent communication between the management and workers proved exceptionally important in the extraordinary situation the company found itself.
During 2010, with the purpose of optimizing business and increasing business efficiency, workers were provisioned through payment of severance payments.

ENVIRONMENT

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

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

Podravka is a recognizable company for production of food products and medicines which are of a standard quality, safety and efficiency. Apart from assuring the satisfaction of clients and creating profit, another important segment of the business policy is constant care about the environment. Sorting of waste and its separate collecting are two key demands in managing waste. Strict separation of waste at the points of its origin continuously reduces the amounts of municipal waste, simultaneously increasing the amounts of sorted waste which is appropriately disposed through recycling or used in other production facilities as secondary raw material outside Podravka Group or as a source of thermal energy (Waste Management Plan). Experts of Podravka Group pay much attention to organized and systematic return and provision of waste packaging according to types and proscribed standards.

Waste waters are also paid special attention, as well as constant control of consumption and water usage. The idea of water recirculation is as realized. Water for energy purposes is prepared at own production facilities, and its release is strictly controlled and is subject to neutralization.

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

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

Sensoring and nutritionism department performs internal and external testings of the consumers as requested by different development and marketing departments with the purpose to develop products that with its organoleptic quality should satisfy the groups of consumers to whom they are intended. Parallel with that daily activities are performed to advance the existing products compliant to the latest trends in technology and raw materials. Using raw materials that have a beneficial effect on human organism and the development focused on functional products we care for the health of our consumers. Closely cooperating with the consumers we try to adapt and optimize raw materials in order to get finished products that are of more quality and appropriateness. Optimizing production processes we try to develop products that have a direct or indirect effect on savings of material, energy and water, reducing thus the cost of resources in production. When developing products we also respect the following principles:

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

Internal rulebooks for all production divisions have been revised and put in function, relating to:

- operating plan in saving and protection,
- environment protection intervention plan,
- waste management plan,
- rulebook on waste water treatment devices operation,
- operating plan of intervention actions upon sudden water pollution,
- rulebook on procedures and provision of all wastes from the technological processes and sludge from the process of waste water treatment and dealing with hazardous materials.

SOCIAL COMMUNITY

Owing to the values saturated through the company culture, socially responsible behaviour is a constituent part of Podravka Group's identity and business activities. From its very beginnings Podravka has been aware of its influence and responsibility towards the social community into which it is deeply rooted. Implementing concrete projects, for more than half a century Podravka contributes to development and raises the standards of living of its employees, but also of the wide social community. Engaging own potentials the company activates connections and exchange of knowledge, experiences and information, creates and stimulates initiatives and projects with the purpose of balancing economic development, improving the quality of living and environment protection. Podravka's engagement into satisfying the needs of the social community in which it operates is portrayed through three key areas:

- healthy living,
- concern for the social community in which we operate,
- continuous education of the employees and encouraging excellence and creativity in education and science.

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

Initiatives

Podravka's engagement included connecting and permeating with its activities on three levels: global, national and local through participating in the work of various entities and organizations:

- international: International Business Leaders Forum (IBLF), Global Compact, European Organization for Quality (EOQ), European Foundation for Quality Management (EFQM),
- national: Croatian Employers Association (HUP), Croatian Chamber of Economy (HGK), National Competitiveness Council (NVK), Croatian Business Council for Sustainable Development (HR PSOR), Work group for preparing negotiations for EU accession, Economic interest association for packaging anf environment protection (GIU PAK), Eko-Ozra (packaging and packaging waste),
- local: institutions of the Town of Koprivnica, Koprivnica-križevci county, and other.

Initiatives relating to areas of stimulating innovativeness and competitiveness through exchange of knowledge of the expert and scientific community (institutes and faculties, EU funds and other) or to encourage initiatives, entrepreneurship and knowledge exchange by participating in the projects of local (Local Agenda 21; European Mobility Week), regional (Regional operative plans for the development of the County) and general national interest (Croatian Academy of Science and art; legislature, work groups for preparing negotiations of Croatian accession to European Union and other).

CORPORATE GOVERNANCE

STATEMENT ON CORPORATE GOVERNANCE

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

Podravka d.d. continuously tracks reforms in the area of corporate management and strives to constant advancement of the relations with the shareholders, investors and overall public, introducing high standards in the mutual communication.

Pursuant to the valid legislature of the Republic of Croatia, and taking into account OECD guidelines for corporate management, Podravka d.d. has accepted Corporate management Code for aligning the rights of all shareholders and an open, professional and transparent approach in relations with the investors and overall public.

Key principles that Podravka d.d. takes into account are:

- rights and obligations of the shareholders,
- equal treatment of all shareholders,
- obligations and responsibilities of the Management and Supervisory Boards of Podravka d.d.
- reporting and transparency.

Aware of the importance and ethically founded behaviour of the business entities as part of the Croatian economy, Podravka d.d. accepted the Code of ethics in its business both in text and in its contents as verified by the Croatian Chamber of Economy Assembly.

As a signer of this Code, Podravka d.d. is obliged to respect the ethics principles in all of its business relations and has committed to respect the principles of ethics in all of its business relations and as such has accepted the obligation of working in compliance to the principles of responsibility, efficiency, transparency, quality, working in good faith and respecting the principles of good business conduct with partners, business and social environment and own employees.

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

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

Subsidiaries of Podravka d.d.

Name of subsidiary	Country	Company share in ownership and voting rights (%) 2010	2009	Principal activity
Subsidiaries in Croatia				
Belupo d.d., Koprivnica	Croatia	100,00	100,00	Production and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	100,00	100,00	Meat production and processing
Lero d.o.o., Rijeka	Croatia	100,00	100,00	Fruit and vegetable juices and beverages production
Ital-Ice d.o.o., Poreč	Croatia	100,00	100,00	Ice-cream production
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100,00	100,00	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100,00	100,00	Purchase and sale of goods, meal preparation and catering services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100,00	100,00	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100,00	100,00	Sale of goods
Subsidiaries abroad				
Lagris a.s., Lhota u Luhačovic	Czech Republic	100,00	100,00	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100,00	100,00	Seasonings production and sales
Podravka-International Kft, Budapest	Hungary	100,00	100,00	Sales and distribution
Podravka d.o.o., Ljubljana	Slovenia	100,00	100,00	Sales and distribution
Podravka d.o.o., Belgrade	Serbia	100,00	100,00	Sales and distribution
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100,00	100,00	Sales and distribution
Podravka-International s.r.o., Zvolen	Slovakia	75,00	75,00	Sales and distribution
Podravka d.o.o., Podgorica	MonteNegro	100,00	100,00	Sales and distribution
Podravka International, Turkey	Turkey	75,00	75,00	Sales and distribution
Podravka-International Pty Ltd, Sydney	Austria	98,88	98,88	Sales and distribution
Sana d.o.o., Hoče	Slovenia	100,00	100,00	Wafers production
Podravka-International s.r.l., Bucharest	Romania	100,00	100,00	Sales and distribution
Podravka d.o.o., Skopje	Macedonia	100,00	100,00	Sales and distribution
Podravka d.o.o., Sarajevo	Bosnia and Herzegovina	100,00	100,00	Sales and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100,00	100,00	Sales and distribution
Podravka-International Inc. Wilmington	USA	100,00	100,00	Sales and distribution

GENERAL ASSEMBLY

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

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

General Assembly of Podravka d.d. held on 25 March 2010 passed a resolution on electing the president and deputy president to the General Assembly for the period of four years, where Hrvoje Matić was elected president to the General Assembly, and its deputy president Ivan Mesić.
Shareholders, proxies and authorized persons get the right to vote at the General Assembly using voting ballots marked with the number of votes belonging to an individual participant at the General Assembly.

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

SUPERVISORY BOARD

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

Supervisory Board members of Podravka d.d. in 2010

Ljubo Jurčić	president	
Ksenija Horvat	deputy president	
Dubravko Štimac	member	(term ended on 20 July 2010, elected 7 September 2010)
Dinko Novoselec	member	(elected 7 September 2010)
Petar Vlaić	member	(elected 7 September 2010)
Petar Miladin	member	(elected 7 September 2010)
Karmen Antolić	member	
Miljenko Javorović	member	
Nikola Gregur	member	
Dražen Sačer	member	(term ended on 20 July 2010)
Branko Vuljak	member	(term activated on 1 June 2010, recalled 7 September 2010)
Darko Tipurić	member	(recalled 7 September 2010)

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

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

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

Audit Committee is authorised to monitor the course of financial reporting, to track the efficiency of internal control system, internal audit and risks management system, supervise the audit of annual financial and consolidated statements, track independence of independent auditors or auditing companies that perform the audit, especially contracts with added services, discuss plans and annual report issued by the internal audit, as well as significant issues related to this area, provide recommendations to the General Assembly on election of the independent auditor or auditing company, communicate with the public on bonus payments, severance payments and share options, suggest to the Supervisory Board amendments in contracts of Management Board members, provide interpretations and opinions for all the provisions contained in the Management Board members contracts.
Audit Committee held one session in 2010.

Supervisory Board members are entitled to a fixed monthly remuneration as decided at the General Assembly on remunerations for Supervisory Board members. In 2010 Podravka d.d. Supervisory Board members have been paid HRK 1,651,756, and if this amount is added the remunerations to members of the Supervisory Boards of Belupo d.d. and Danica d.o.o., Supervisory Board members of Podravka Group have been paid HRK 1,799,339.

MANAGEMENT BOARD

At the Supervisory Board session held on 23 October 2009, a resolution was passed on increasing the number of Podravka d.d. Management Board members from present five to seven members. Next to the existing members, new appointed members were Lidija Kljajić and Krunoslav Bešvir, whose term is till the next session of General Assembly. At the same session, compliant to Article 261 of the Company Law, the Supervisory Board appointed Branko Vuljak, Supervisory Board member, to be a deputy member of the Management Board. This appointment the Supervisory Board has passed for a 30-days period, during which his term at the Supervisory Board was put on suspension.

At the session held on 18 November 2009 the Supervisory Board passed a resolution on reappointing Branko Vuljak as deputy member of the Management Board, with his term ending on 31 May 2010. At the same session the term was also determined for Lidija Kljajić and Krunoslav Bešvir to be till 31 May 2010.

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

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

Management Board members in 2010

Miroslav Vitković	president	
Lidija Kljajić	member	
Marin Pucar	member	
Krunoslav Bešvir	member	
Miroslav Repić	member	(appointed on 1 June 2010)
Branko Vuljak	deputy member	(term ended as Management Board deputy member on 1 June 2010)

Salary to an individual Podravka d.d. Management Board member has been determined by management contract signed by an individual Management Board member and the Company. Gross salaries paid in 2010 to Podravka d.d. Management Board members amount to HRK 5,442,292, and if this amount is added with remunerations for Management Board members for Belupo d.d. and Danica d.o.o., Podravka Group Management Board members have been paid gross salaries of HRK 9,615,530.

CORPORATE GOVERNANCE CODE

ANNUAL QUESTIONNAIRE

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

Company name PODRAVKA food industry d.d.

1. Does the company have its website?

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

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

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

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

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

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

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

15.Has the company ensured that the shareholders of the company who, for whatever reason, are not able to vote at the assembly in person, have proxies who are obliged to vote in accordance with instructions received from the shareholders, with no extra costs for those shareholders? (If not, why?)	YES	
16.Did the management or Management Board of the company, when convening the assembly, set the date for defining the status in the register of shares, which will be relevant for exercising voting rights at the general assembly of the company, by setting that date prior to the day of holding the assembly and not earlier than 6 days prior to the day of holding the assembly? (If not, why?)	YES	
17. Does the decision on dividend payment or advance dividend payment include information on the date when shareholders acquire the right to dividend payment, and information on the date or period during which the dividend will be paid? (If not, why?)	NO	In 2010 the Company did not pay any dividends.
18. Is the date of dividend payment or advance dividend payment set to be not later than 30 days after the date of decision making? (If not, why?)	NO	In 2010 the Company did not pay any dividends.
19. Was the decision on dividend payment or advance dividend payment defining the above-mentioned dates published and submitted to the Stock Exchange not later than within two days after it had been made?	NO	
20. Were any shareholders favoured while receiving their dividends or advance dividends? (If so, why?)	NO	In 2010 the Company did not pay any dividends.
21. Were the agenda of the assembly, as well as all relevant data and documentation with explanations relating to the agenda, announced on the website of the company and put at the disposal of shareholders on the company's premises as of the date of the first publication of the agenda? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
22.Were the agenda of the assembly and all relevant data and documentation published on the website of the company in English as well? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
23.Have the conditions been defined for participating at the general assembly by voting through proxy voting (irrespective of whether this is permitted pursuant to the law and articles of association), such as registration for participation in advance, certification of powers of attorney etc.? (If so, why?)	YES	Registration of participants in advance as a condition of participating at the General Assembly is stipulated due to a large number of small shareholders, with the intention of maintaining order and regularity of the session being held.
24. Does the report to be submitted by the Supervisory or Management Board to the general assembly include, apart from minimum information defined by law, the evaluation of total business performance of the company, of activities of the management of the company, and a special comment on its cooperation with the management? (If not, why?)	YES	
25. Are the shareholders allowed to participate and to vote at the general assembly of the company using modern communication technology? (If not, why?)	NO	There are no preconditions for such participation of shareholders at the General Assembly.

26. Did the management of the company publish the decisions of the general assembly of the company, as well as the data on legal actions, if any, challenging those decisions? (If not, why?)	YES	http://www.podravka.com/investors/corporate-governance/general-assembly
27. Has the Supervisory or Management Board adopted a decision on the master plan of its activities, including the list of its regular meetings and data to be made available to Supervisory Board members, regularly and in a timely manner? (If not, why?)	YES	
28. Has the Supervisory or Management Board passed its internal code of conduct? (If not, why?)	YES	
29. Please provide the names of the Supervisory Board and Management Board members.		Ljubo Jurčić (president of Supervisory Board), Ksenija Horvat (deputy president of Supervisory Board), Karmen Antolić, Dubravko Štimac (term expiration as of 20 July 2010, elected 07 September 2010), Dinko Novoselec (elected 07 September 2010), Petar Vlaić (elected 07 September 2010), Miljenko Javorović, Nikola Gregur, Petar Miladin (elected 07 September 2010), Dražen Sačer (term expiration as of 20 July 2010), Branko Vuljak (term activated as of 01 June 2010, recalled 07 September 2010), Darko Tipurić (recalled 07 September 2010).
30. Please provide information on other companies whose members of the Supervisory or Management Board or management are also members of the Supervisory Board of the company. Also, provide information on whether some of those companies are considered as the company's competition.		There is no obligation of submitting requested information.
31. Is the Supervisory Board composed of, i.e. are non-executive directors of the Management Board mostly independent members? (If not, why?)	YES	
32. Which members of the Supervisory Board and which non-executive directors of the Management Board are independent?		Karmen Antolić, Petar Miladin, Dinko Novoselec, Dubravko Štimac and Petar Vlaić
33. Is there a long-term succession plan in the company? (If not, why?)	YES	
34. . Is the remuneration received by the members of the Supervisory or Management Board entirely or partly determined according to their contribution to the company's business performance? (If not, why?)	NO	The remuneration is fixed and in no part does it depend on efficiency of Company's business.
35. Is the remuneration to the members of the Supervisory or Management Board:		
determined by a decision of the general assembly	YES	
stipulated in the articles of association of the company		
determined in some other way (if so, in which way?)		

36. Have detailed records on all remunerations and other earnings of each member of the Supervisory or Management Board received from the company or from other persons related to the company, including the structure of such remuneration, been made public? (If not, why?) (If so, where?)	NO	Supervisory Board members are entitled to a fixed monthly remuneration as decided at the General Assembly on remunerations for Supervisory Board members of Podravka d.d. Remunerations and other incomes given by the Company to the Supervisory Board members are published in the Company's Annual Report for 2010.
37. Does every member of the Supervisory or Management Board inform the company of each change relating to their acquisition or disposal of shares of the company, or to the possibility to exercise voting rights arising from the company's shares, not later than on the next business day after such a change occurs (If not, why?)	YES	
38. Please provide information on all transactions involving both members of the Management or Supervisory Board or persons related to them, and the company or persons related to it.		There were no such activities.
39. Were all transactions involving members of the Supervisory or Management Board or persons related to them and the company and persons related to it:		
concluded based on the current market situation (especially with regard to time limits, interest, guarantees etc.)? (If not, why and which transactions were those?)	NO	There were no such activities.
clearly presented in reports of the company (If not, why and which transactions were those?)	NO	There were no such activities.
confirmed by an independent estimate of experts independent as regards the participants in the said transaction? (If not, why and which transactions were those?)	NO	There were no such activities.
40. Are there any contracts or agreements between members of the Supervisory or Management Board and the company? If so,	NO	
did they obtain prior approval of the Supervisory or Management Board? (If not, why?)		
are important elements of all such contracts or agreements included in the annual report? (If not, why?)		
41. Have the Supervisory or Management Board established the appointment committee? (If not, why?) If so,	YES	
has the committee evaluated the structure, size, membership and quality of work of the Supervisory Board and the management, and prepared appropriate recommendations for the Supervisory Board? (If not, why?)	NO	Due to changes in membership in the Supervisory Board during 2010.
has the committee evaluated the knowledge, skills and experience of each member of the Supervisory Board and informed the Supervisory Board thereof? (If not, why?)	NO	Due to changes in membership in the Supervisory Board during 2010.
has the committee analysed problems related to the planning of work continuity of the Supervisory Board and the management? (If not, why?)	YES	
has the committee analysed the policy of the management on the employment of senior management? (If not, why?)	NO	The creation of the policy has been initiated when the Board was appointed.
42. Have the Supervisory or Management Board established the remuneration committee? If so,	YES	

has the majority of the committee members been selected from the group of independent members of the Supervisory Board? (If not, why?)	YES	
has the committee proposed to the Supervisory Board the remuneration policy for the management, which shall include all types of remuneration, especially its fixed part, variable part dependent on business results, pension scheme and severance pay? (If not, why?)	NO	Due to changes in membership in the Supervisory Board during 2010.
in the case of variable part of remuneration dependent on business results, did the proposal of the committee include recommendations for determining impartial criteria for assessing efficiency? (If not, why?)	NO	There was no variable part.
has the committee proposed to the Supervisory Board the amount of remuneration for each member of the management, in compliance with the company's remuneration policy and evaluation of business performance of each member of the management? (If not, why?)	NO	Due to changes in membership in the Supervisory Board during 2010.
has the committee proposed to the Supervisory Board the appropriate form and content of contracts with the members of the management? (If not, why?)	NO	The Committee accepted the existing form and content of the Contract with the Management Board members and so far has made no changes or amendments.
has the committee monitored the amount and structure of remuneration to senior management and made general recommendations to the management thereon? (If not, why?)	NO	The company's system of remunerating high management is through key performance indicators.
as regards the part of the remuneration to the management representing stimulus, in the case where it consists of stock options or other arrangements based on share acquisition, has the commission analysed the general policy on such type of remuneration and proposed to the Supervisory Board appropriate solutions, as well as analysed information published thereon in the annual report, prior to the publication?	NO	

43. Have the Supervisory or Management Board established the audit committee? (If not, why?) If so,	YES	
has the majority of the committee members been selected from the group of independent members of the Supervisory Board? (If not, why?)	YES	
has the committee monitored the integrity of the financial information of the company, especially the correctness and consistency of the accounting methods used by the company and the group it belongs to, including the criteria for the consolidation of financial reports of the companies belonging to the group? (If not, why?)	NO	Due to the particularity of the situation, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
has the committee assessed the quality of the internal control and risk management system, with the aim of adequately identifying and publishing the main risks the company is exposed to (including the risks related to the compliance with regulations), as well as managing those risks in an adequate manner? (If not, why?)	NO	Due to the particularity of the situation, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
has the committee worked at ensuring the efficiency of the internal audit system, especially by preparing recommendations for the selection, appointment, reappointment and dismissal of the head of internal audit department, and with regard to funds at his/her disposal, and the evaluation of the actions taken by the management after findings and recommendations of the internal audit? (If not, why?)	NO	Due to the particularity of the situation, the Commission did not work on its own, but the entire Supervisory Board participated in the process of further analysis of Company's business.
if there is no internal audit system in the company, has the committee considered the need to establish it? (If not, why?)	NO	Internal audit function exists.

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

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

46. Have the Supervisory or Management Board evaluated their work in the preceding period, including evaluation of the contribution and competence of individual members, as well as of joint activities of the Board, evaluation of the work of the committees established, and evaluation of the company's objectives reached in comparison with the objectives set?	NO	
47. Please provide the names of the members of the Management Board or executive directors.		Miroslav Vitković (president of the Management Board), Lidija Kljajić, Marin Pucar, Krunoslav Bešvir, Miroslav Repić (appointed 1 June 2010), Branko Vuljak (term expiration of Management Board deputy member as of 1 June 2010)
48. Have rules been established for the work of the management or executive directors, covering the following issues:		
scope of activities and objectives,	YES	
rules of procedure,	YES	
rules of solving conflicts of interest,	NO	Conflict of interest was defined by management contracts.
management secretariat ,	YES	
manner of convening meetings, adopting decisions, agenda, taking minutes and delivering documents,	YES	
cooperation with the Supervisory Board.	YES	
(If not, why?)		
49. Has the company published a statement on the remuneration policy for the management, Management Board and the Supervisory Board as part of the annual report? (If not, why?)	NO	There is no obligation of submitting requested information.
50. In the case where remuneration policy has been defined, does it include the following parts:		
significant changes in comparison with the remuneration policy in the past year (If not, why?)		
explanation of the relative share and of the importance of fixed and variable components of remuneration (If not, why?)		
sufficient information on efficiency criteria, the fulfilment of which the right to acquire stock options, shares or other form of variable part of remuneration is based on (If not, why?)		
sufficient information on the connection between the amount of remuneration and efficiency (If not, why?)		
basic indicators and reasons for payments of annual bonuses or benefits which are not cash (If not, why?)		

abbreviated overview of contracts with management members, which shall include data on contract duration, notice periods and especially severance pays. Every type of remuneration for members of the management and the Supervisory Board which consists of stock options or other rights to acquire shares, or if remuneration is based on the price of company shares, shall be approved by the general assembly of the company prior to becoming effective. This approval relates to remuneration principles and not to the approval of remuneration for individual members of the management or the Supervisory Board. (If not, why?)		

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

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

53. Have all forms of remuneration to the members of the management, Management Board and Supervisory Board, including options and other benefits of the management, been made public, broken down by items and persons, in the annual report of the company? (If not, why?)	NO	There is no obligation of submitting requested information. Total amounts of remunerations to the Management Board and the Supervisory Board members are published in the Company's Annual Report for 2010.

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

total amount of the salary payment, irrespective of whether it has already been paid or not (If not, why?)		
remuneration or benefits received from associated companies (If not why?)		
remuneration in the from of participation in profit or bonuses and the reasons for its payment (If not, why?)		
any other additional remuneration paid to the members of the management for activities they conducted for the company outside the usual scope of duties of a management member (If not, why?)		
compensation that was or should be paid to a former member of the management due to cessation of exercise of his/her duties during the year which the statement relates to (If not, why?)		
total estimated value of non-cash benefits considered as remuneration, but not listed in the items above (If not, why?)		
as regards the remuneration in shares or stock options or other forms of remuneration based on acquisition of shares:		
the number of options or shares approved by the company in the year which the statement relates to and terms and conditions for their disposal (If not, why?)		

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

59. Are any members of the management or executive directors also members of the Supervisory Boards of other companies? (If so, provide the names of those members of the management, names of the companies in which they are members of the Supervisory Board, and functions they exercise in those Supervisory Boards)	YES	Miroslav Vitković - BELUPO d.d. president of Supervisory Board, DANICA d.o.o. Supervisory Board member, PODRAVKA-LAGRIS a.s. Supervisory Board member, PODRAVKA INTERNATIONAL USA Inc. Supervisory Board member, Marin Pucar - BELUPO d.d. Supervisory Board member, DANICA d.o.o. Supervisory Board member, PODRAVKA LAGRIS a.s. Supervisory Board member, PODRAVKA INTERNATIONAL USA Supervisory Board member, Krunoslav Bešvir - DANICA d.o.o. president of Supervisory Board, BELUPO d.d.Supervisory Board member, Lidija Kljajić - BELUPO d.d.Supervisory Board member, DANICA d.o.o. Supervisory Board member, Branko Vuljak - BELUPO d.d. Supervisory Board member (recalled 31 August 2010), DANICA d.o.o. Supervisory Board member, Miroslav Repić - BELUPO d.d. Supervisory Board member (elected 31 August 2010)
60. Does the company have an external auditor (If not, why?)	YES	
61. Is the external auditor of the company:		
related with the company in terms of ownership or interests (If so, state in which way)	NO	
providing to the company, him/herself or through related persons, other services? (If so, provide information on those services and on how much it costs the company)	NO	
62. Have the independent auditors directly informed the audit committee of the following issues:		
discussions on the main accounting policy,	YES	
major deficiencies and significant shortcomings in the internal audit system,	NO	There were no such deficiencies.
alternative accounting procedures,	YES	
disagreement with the management,	NO	There were no such disagreement.
risk assessment, and	YES	
analysis, if any, of fraud and/or abuse.	NO	There were no such cases.
If not, why?		
63. Has the company published the amount of charges paid to the independent external auditors for the audit carried out and for other services provided? (If not, why?)	NO	There is no obligation of submitting requested information.
64. Does the company have internal auditors and an internal audit system established? (If not, why?)	YES	
65.Do investors have the possibility to request in writing and receive on time all relevant records from the management of the company or from the person in the company responsible for investor relations? (If not, why?)	YES	

66. How many meetings did the management of the company hold with investors?		In 2010 company representatives participated on several investor conferences and held 30 meetings with the investors.
67.Has anyone suffered negative consequences for pointing out to the competent authorities or bodies in the company or outside it shortcomings in the application of rules or ethical norms within the company? (If so, why?)	NO	
68. Do all the members of the management, Management Board and Supervisory Board agree that the answers provided in this questionnaire are, to the best of their knowledge, truthful in their entirety? (If not, please provide names of the members of the management and the Supervisory Board who do not agree with some of the answers, list the answers they do not agree with and explain why.)	YES	

COMPANY SECURITIES

SHARE

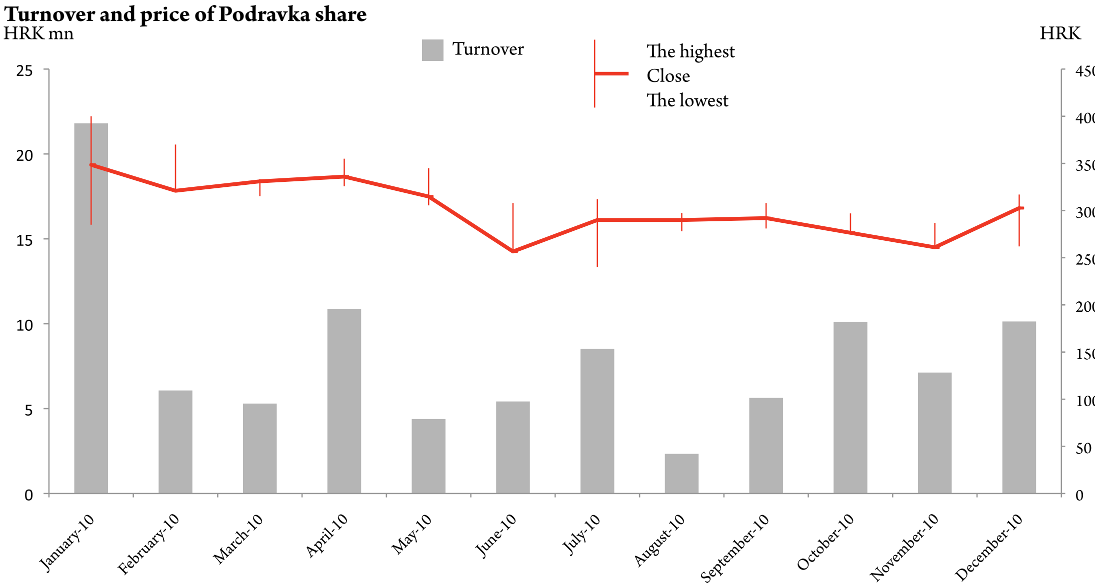
Podravka share has been listed in the Official Market of the Zagreb Stock Exchange on 7 December 1998 with the symbol PODR-R-A. It is one of the fifteen most liquid shares of the Zagreb Stock Exchange in 2010 with significant annual turnover.

Turnover and price

Regular share turnover at the Zagreb Stock Exchange reduced during 2010 by 22.3%, while Podravka share turnover also decreased by 2.7%. Total turnover of Podravka share in 2010 was HRK 97,704,591, which is 1.7% of the regular turnover at the Zagreb Stock Exchange (1.4% in 2009).

Podravka share ends the year 2010 at HRK 302.68, which is 1.9% increase comparing to the close price in 2009. The lowest selling price of the share in 2010 was HRK 240.00 and it was realized in July, while the highest selling price was 400.00 and it was realized in October. WACP of Podravka share in 2010 was HRK 308.73, which is 29.5% increase compared to 2009.

Turnover and price of Podravka share



Podravka share turnover per quarters in 2010

		2009		2010
Period	Turnover (HRK)	Volume	Turnover (HRK)	Volume
I quarter	30,227,815	143,003	33,175,309	98,786
II quarter	37,100,170	164,894	20,668,589	63,565
III quarter	11,350,000	45,363	16,494,715	58,623
IV quarter	21,767,886	73,402	27,365,978	96,040
Total	100,445,871	426,662	97,704,591	317,014

Source:ZSE

The highest turnover of Podravka share was in the first and fourth quarter of 2010, while added turnovers from these quarters make 62% of the total turnover in 2010.

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

		Turnover		Portion
Period	2009	2010	2009 portion	2010 portion
I quarter	1,575	1,295	21%	22%
II quarter	2,497	1,412	34%	25%
III quarter	1,767	874	24%	15%
IV quarter	1,595	2,196	21%	38%
Total share turnover at ZSE	7,434	5,777	100%	100%

Source:ZSE

Prices in the period 2004 - 2010 (base index (100) = year 2004)

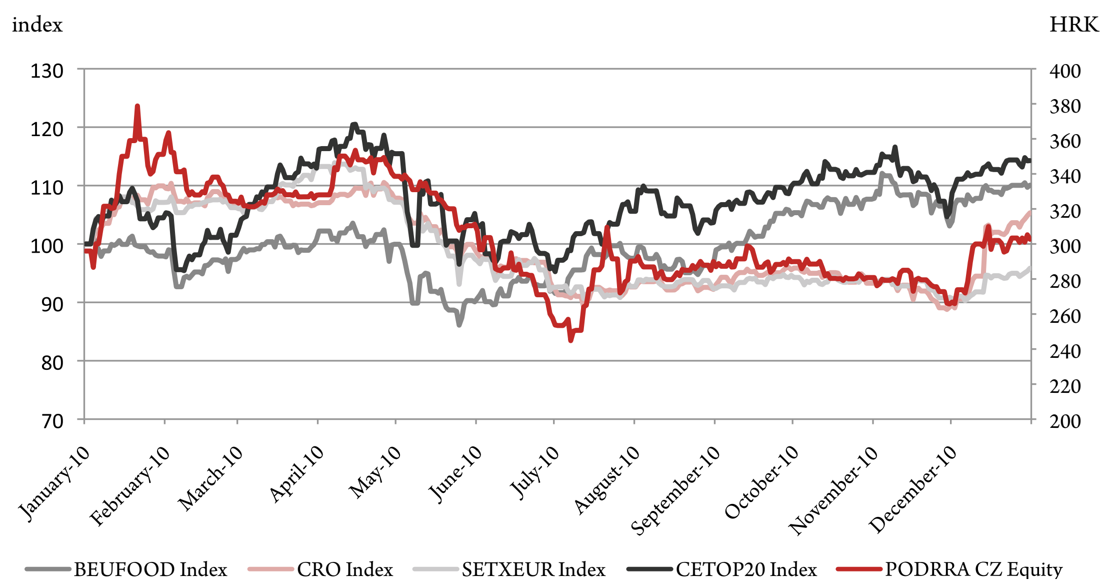
on 31 December	2004	2005	2006	2007	2008	2009	2010
The highest (HRK)	239.00	365.00	495.00	645.00	514.00	338.50	400.00
The lowest (HRK)	162.00	229.00	315.00	440.00	237.00	176.00	240.00
Close (HRK)	239.00	318.00	470.01	510.00	261.00	296.99	302.68
Change index	100.00	133.05	196.66	213.39	109.21	124.26	126.64
CROBEX value	1,565.80	1,997.50	3,209.50	5,210.30	1,722.25	2,004.06	2,110.93
Change index	100.00	127.57	204.98	332.76	109.99	127.99	134.81

CROBEX value change index was continuously growing in the period from 2004 to 2007, and it grew more than three times, and change index for Podravka close price in the same period grew a bit over two times. In 2007 CROBEX and Podravka share price reach their peaks, and in 2008 as a consequence of world economic crisis the price is declining rapidly. After that during 2009 and 2010 a mild market recovery is noticed with increase of CROBEX value and Podravka share.
Higher volatility of CROBEX movement is also noticed in the observed period, in comparison with Podravka share, especially in 2007 when CROBEX change index reached 332.76 points compared to 213.39 marked by Podravka share.

Podravka share over three-year period

on 31 December	2008	2009	2010
The highest (HRK)	514.00	338.50	400.00
The lowest (HRK)	237.00	176.00	240.00
Close (HRK)	261.00	296.99	302.68
Annual turnover (HRK)	375,504,024	100,445,871	97,704,591
WACP (HRK)	361.14	238.39	308.73
Market capitalization (mil. HRK)	1.414.60	1,609.70	1,640.53
EPS	8.94	-72.65	16.07
P/E	29.19	-4.09	18.84
P/BV	0.75	1.07	1.03
Dividend	-	-	-

Comparison of Podravka share and stock market indices (base index (100) = 1 Jan 2010)



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

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

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

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

The chart displays movement of Podravka share price in 2010, with the share price consistently moving with the index price.

Stock market indices

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

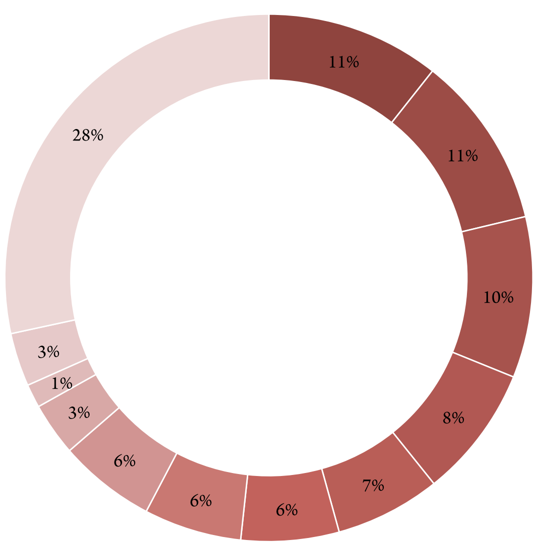
Portion of Podravka share in stock market indices on 31 December 2010

CROBEX	5.29 %
CROBEX10	7.53%

Recommendations of analysts on 31 December 2010

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

Shareholder structure on 31 December 2010



SHAREHOLDERS	*NO. OF SHARES*
FIMA AMI LTD.	*576,880*
CPF/CIPI	*575,598*
CPF	*534,858*
*UNICREDIT BANK AUSTRIA AG**	*440,017*
PBZ CROATIA OSIGURANJE MPF	*349,974*
ERSTE PLAVI MPF	*325,163*
AZ MPF	*324,291*
KAPITALNI FOND D.D.	*321,804*
RAIFFEISEN MPF	*176,512*
*PBZ D.D.**	*78,339*
TREASURY ACCOUNT	*177,511*
OTHER OWNERS	*1,539,056*
TOTAL NO. OF SHARES:	*5,420,003*

**omnibus custody account*
CPF – Croatian Privatization Fund
CIPI – Croatian Institute for Pension Insurance
MPF – Mandatory Pension Fund

Treasury account status

Considering the fact that there was no acquiring or releasing of own shares in 2010, on 31 December 2010 the situation was unchanged comparing to 31 December 2009, when there were 177,511 of own shares.

Shares owned by members of the Supervisory and Management Boards of Podravka d.d. at 31 December 2010

The Supervisory Board	76 shares
The Management Board	280 shares

BOND

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

Trading with Podravka bond

		2009		2010
Period	Turnover (HRK)	Volume	Turnover (HRK)	Volume
I quarter	19,596,000	23,740,000	32,704,255	34,010,000
II quarter	874,925	987,500	8,907,000	9,000,000
III quarter	17,997,879	20,055,707	13,900,000	13,692,850
IV quarter	5,409,000	6,000,000	14,142,050	14,707,150
Total	43,877,804	50,783,207	69,653,305	71,410,000

Source: ZSE

Podravka bond turnover in 2010 grew comparing to the year before, but considering that the overall bond turnover at the Zagreb Stock Exchange in 2010 was significantly higher than in 2009, the portion of Podravka bond in the overall turnover was reduced. Podravka bond made 1.0% of the total bond turnover at the Zagreb Stock Exchange in 2010.

Quarterly bond turnover at the Zagreb Stock Exchange

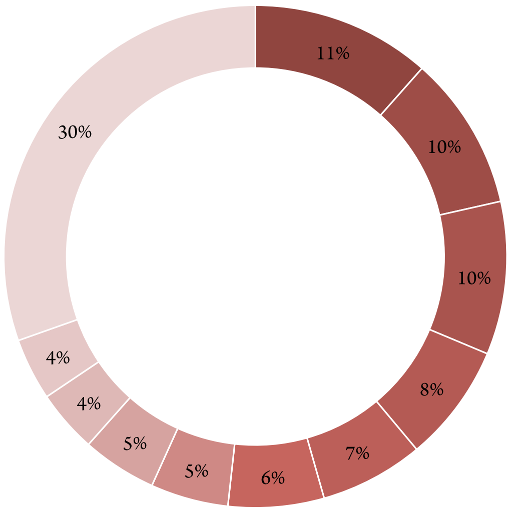
		2009		2010
Period	Turnover (HRK)	Volume	Turnover (HRK)	Volume
I quarter	1,577,584,214	768,337,305	2,065,834,839	1,524,334,924
II quarter	411,182,362	163,874,040	1,721,043,056	892,158,213
III quarter	428,058,139	245,523,124	1,834,118,404	663,677,486
IV quarter	937,895,334	759,748,770	1,501,189,311	903,661,340
Total	3,354,720,049	1,937,483,239	7,122,185,610	3,983,831,963

Source:ZSE

Interests due and interests gained

Voucher	Voucher payment	Period start	Period end	Interest (%)	No. of days	Interest gained per day (%)	Interest gained per day per Bond (HRK)
1.	17 5 2007	17 5 2006	16 5 2007	5.125	365	0.014041096	0.000140411
2.	19 5 2008	17 5 2007	16 5 2008	5.125	366	1.014002732	0.000140027
3.	18 5 2009	17 5 2008	16 5 2009	5.125	365	0.014041096	0.000140411
4.	17 5 2010	17 5 2009	16 5 2010	5.125	365	0.014041096	0.000140411
5.	17 5 2011	17 5 2010	16 5 2011	5.125	365	0.014041096	0.000140411

Bond ownership structure at 31 December 2010



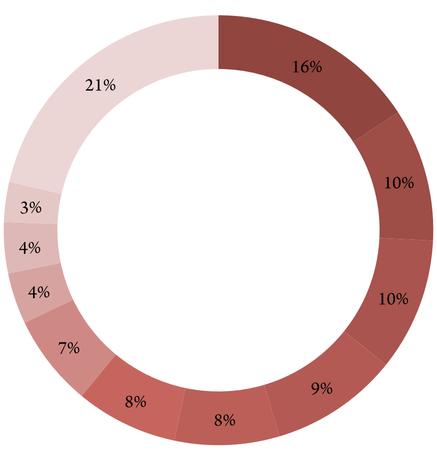
	IN 000
UNICREDIT BANK AUSTRIA AG*	43,222
AZ MPF	37,296
RAIFFEISEN MPF	36,950
RAIFFEISENBANK AUSTRIA D.D.	28,507
CROATIA OSIGURANJE D.D.	25,000
PBZ D.D.*	23 093
PBZ CROATIA OSIGURANJE MPF	18,750
RAIFFEISENBANK AUSTRIA D.D./RBO	18,000
RAIFFEISENBANK AUSTRIA D.D./RBA	15,100
ERSTE PLAVI MPF	15,000
OTHER OWNERS	114,082

**omnibus custody account*
MPF – Mandatory Pension Fund

COMMERCIAL NOTES

As part of the commercial notes issuing program amounting to HRK 350 million, on 8 February 2010 the second installment of commercial notes was issued and it was listed in the Official Market of the Zagreb Stock Exchange with the symbol PODR-M-106A. Nominal amount of this installment is HRK 130 million, return 9.15%, issue price 91.638%, maturity 364 days. Program duration is 3 to 5 years.

Commercial notes ownership structure at 31 December 2010



	IN 000
RAIFFEISENBANK AUSTRIA D.D.	20,491
PBZ D.D*	13,000
PBZ CROATIA OSIGURANJE MPF	13,000
RAIFFEISEN MPF	12,550
HPB NOVČANI OIF	10,250
RAIFFEISEN VPF	10,000
ERSTE PLAVI MPF	9,000
AZ MPF	5,000
SOCIETE GENERALE-SPLITSKA BANKA D.D.*	5,000
RAIFFEISEN MIROVINSKO OSIGURAVAJUĆE DRUŠTVO D.O.O.	3,900
OTHER OWNERS	27,809

**omnibus custody account*
MPF – Mandatory Pension Fund
OIF – Open Investment Fund
VPF – Voluntary Pension Fund

PODRAVKA d.d. and Its Subsidiaries,

Koprivnica

Consolidated Financial Statements

for the year ended 31 December 2010

Together with Independent Auditor's Report

RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

Miroslav Vitković

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 10 March 2011

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2010, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Zagreb, 10 March 2011

Deloitte
d.o.o.
Zagrebtower
Radnička cesta 80
10 000 Zagreb
MB 0700851

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	**Note**	**2010**	**2009 restated**
Sales	5	3,522,272	3,587,136
Cost of goods sold	8	(2,075,312)	(2,141,681)
Gross profit		**1,446,960**	**1,445,455**
Investment revenue	6	13,048	7,076
Other losses, net	7	(50,856)	(439,653)
General and administrative expenses	9	(247,649)	(299,865)
Selling and distribution costs	10	(554,157)	(573,377)
Marketing expenses	11	(401,216)	(396,928)
Other expenses	12	(1,273)	(9,996)
Finance costs	15	(95,521)	(98,048)
Profit / (loss) before tax		**109,336**	**(365,336)**
Income tax expense	17	(25,262)	(15,471)
Profit / (loss) for the year		**84,074**	**(380,807)**
Other comprehensive income			
Exchange differences on translation of foreign operations		13,521	121
Total comprehensive (loss)/income		**97,595**	**(380,686)**
Profit / (loss) for the year attributable to:			
To the equity holders of the parent		84,235	(380,991)
Non-controlling interests		(161)	184
Total comprehensive income / (loss) attributable to:			
To the equity holders of the parent		97,609	(380,934)
Non-controlling interests		(14)	248
Earnings / (loss) per share:			
- Basic	18	16.07	(72.65)
- Diluted	18	15.97	(71.78)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

(in thousands of HRK)	Note	31/12/2010	31/12/2009	31/12/2008
			As restated	*As restated*
ASSETS				
Non-current assets				
Goodwill	20	44,293	42,877	48,428
Intangible assets	21	308,040	311,609	343,599
Property, plant and equipment	22	1,642,820	1,711,646	1,770,858
Long term financial assets	24	9,142	11,573	61,828
Deferred tax assets	17	52,330	53,589	44,552
Total non-current assets		**2,056,625**	**2,131,294**	**2,269,265**
Current assets				
Inventories	25	692,094	646,839	631,760
Trade and other receivables	26	1,083,543	1,186,974	1,286,899
Financial assets at fair value through profit and loss	27	14,796	22,321	23,416
Cash and cash equivalents	28	152,363	145,269	419,248
		1,942,796	2,001,403	2,361,323
Non-current assets held for sale	29	8,768	4,004	4,517
Total current assets		**1,951,564**	**2,005,407**	**2,365,840**
Total assets		**4,008,189**	**4,136,701**	**4,635,105**
EQUITY AND LIABILITIES				
Shareholders' equity				
Share capital	30	1,580,734	1,583,691	1,587,356
Reserves	31	126,937	109,825	83,458
(Accumulated loss)/Retained earnings	32	(107,200)	(188,781)	218,520
Attributable to the equity holders of the parent		**1,600,471**	**1,504,735**	**1,889,334**
Non-controlling interests	33	34,347	34,361	34,113
Total shareholders' equity		**1,634,818**	**1,539,096**	**1,923,447**
Non-current liabilities				
Financial liabilities at fair value through profit and loss	34	-	336,300	318,750
Long-term borrowings	35	558,957	452,916	597,572
Provisions	36	30,037	29,226	27,339
Deferred tax liability	17	7,141	7,616	8,356
Total non-current liabilities		**596,135**	**826,058**	**952,017**
Current liabilities				
Trade and other payables	37	800,591	942,009	884,511
Financial liabilities at fair value through profit and loss	34	371,100	-	-
Short-term borrowings	35	581,691	805,050	858,455
Provisions	36	23,854	24,488	16,675
Total current liabilities		**1,777,236**	**1,771,547**	**1,759,641**
Total liabilities		**2,373,371**	**2,597,605**	**2,711,658**
Total equity and liabilities		**4,008,189**	**4,136,701**	**4,635,105**

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	**Notes**	**Share capital**	**Reserves**	**Retained earnings/ ccumulated loss)**	**Total**	**Non-controlling interest**	**Total**
Balance at 1 January 2009	**30, 31,32,33**	**1,587,356**	**83,458**	**218,520**	**1,889,334**	**34,113**	**1,923,447**
Loss for the year as originally reported		-	-	(288,059)	(288,059)	184	(287,875)
Effect of correction of the option on company shares	3.3 (b)	-	-	(92,932)	(92,932)	-	(92,932)
Loss for 2009 after restatement		-	-	(380,991)	(380,991)	184	(380,807)
Other comprehensive income		-	57	-	57	64	121
Total comprehensive loss after restatement		-	57	(380,991)	(380,934)	248	(380,686)
Purchase of treasury shares		(6,390)	-	-	(6,390)	-	(6,390)
Fair value of share based payments		2,725	-	-	2,725	-	2,725
Transfer to other and legal reserve		-	26,310	(26,310)	-	-	-
Balance at 31 December 2009	**30, 31,32,33**	**1,583,691**	**109,825**	**(188,781)**	**1,504,735**	**34,361**	**1,539,096**
Profit for the year		-	-	84,235	84,235	(161)	84,074
Other comprehensive income		-	13,374	-	13,374	147	13,521
Total comprehensive income		-	13,374	84,235	97,609	(14)	97,595
Fair value of share based payments		(2,957)	-	-	(2,957)	-	(2,957)
Transfer to other and legal reserves		-	3,738	(2,654)	1,084	-	1,084
Balance at 31 December 2010		**1,580,734**	**126,937**	**(107,200)**	**1,600,471**	**34,347**	**1,634,818**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

(in thousands of HRK)	2010	2009 restated
Profit / (loss) for the year	84,074	(380,807)
Income tax	25,262	15,471
Depreciation and amortization	155,292	156,537
Value adjustment of liabilities at fair value through profit or loss	38,294	16,907
Unrealised losses per options contracts	21,008	92,932
Value adjustment of current assets	22,991	31,597
Value adjustment of assets held for sale	(74)	403
Value adjustment of investments	1,649	5,996
Value adjustment of capital (gains) / losses	(2,957)	2,725
(Gains) / losses on disposal of non-current assets	(4,661)	9,496
Increase in long-term provisions	177	1,147
Interest income	(9,191)	(14,089)
Interest expenses	88,376	109,156
Effect of changes in foreign exchange rates	16,534	(4,321)
Value adjustment of receivables for loans and guarantees	-	263,113
Value adjustment and impairment of non-current assets	-	53,753
Other items not affecting cash	(332)	(815)
Changes in working capital:		
Increase in inventories	(49,942)	(15,210)
Decrease in trade receivables	**99,055**	**101,939**
Increase in other current assets	*(14,335)*	*(8,947)*
Decrease in trade payables	*(21,321)*	*(132,512)*
(Decrease) / increase in other liabilities	*(136,922)*	*1,773*
Net cash generated from operations	**312,977**	**306,244**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010 (CONTINUED)

(in thousands of HRK)	**2010**	**2009**
Cash flows from operating activities		
Cash generated from operations	312,977	306,244
Income taxes paid	(25,574)	(20,695)
Interest paid	(90,634)	(113,303)
Net cash from operating activities	**196,769**	**172,246**
Cash flows from investing activities		
Proceeds from disposed share units in Pharma Net d.o.o.	1,000	-
Payments made for property, plant and equipment, and intangible assets	(91,068)	(141,791)
Sale of tangible and intangible assets	10,446	15,695
Long-term loans and deposits given	(309)	-
Collection of long-term loans and deposits given	1,002	649
Purchase of trading securities	(68,300)	(8,989)
Sale of trading securities	74,176	4,088
Short-term loans and deposits given	(2,108)	(313,211)
Collection of short-term loans and deposits given	2,078	185,630
Collected interest	9,191	10,966
Acquisition of subsidiaries, net of cash acquired	-	(1,220)
Net cash used in investing activities	**(63,892)**	**(248,183)**
Cash flows from financing activities		
Proceeds from long-term borrowings	239,206	49,565
Repayment of long-term borrowings	(129,891)	(94,087)
Proceeds from short-term borrowings	519,693	583,850
Repayment of short-term borrowings	(754,791)	(730,980)
Purchase of treasury shares	-	(6,390)
Net cash used in financing activities	**(125,783)**	**(198,042)**
Net increase / (decrease) in cash and cash equivalents	**7,094**	**(273,979)**
Cash and cash equivalents at beginning of year	145,269	419,248
Cash and cash equivalents at the end of year	152,363	145,269

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

Corporate governance and management

General Assembly

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

President	Hrvoje Matić

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

Supervisory Board

Supervisory Board members during 2010:

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

- 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;

- 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 Bord 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)

- 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 consolidated financial statements since during the year 2010 the Group 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 consolidated financial statements.

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 consolidated 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 consolidated financial statements as the Group does not have hedging financial instruments.

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 consolidated financial statements.

2.2. Standards and Interpretations early adopted by the Group

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

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

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 consolidated financial statements since the Group applies IFRS.

Amendments to IFRS 1 "First-time Adoption of IFRS"- Additional Exemptions for First-time Adopters (effective for annaul 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 consolidated financial statements since the Group applies IFRS.

Interpretations and amendments to existing Standards that are not relevant for the operations of the Group
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 consolidated 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 consolidated financial statements as the Group is not involved in such activities.

2.4. Standards and Interpretations in issue but not yet adopted

At the date of authorisation of these consolidated financial statements the following standards, revisions and interpretations were in issue but not yet effective:

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

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 consolidated financial statements since the Group 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 operations of the Group nor on consolidated 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.

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 Group 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 consolidated financial statements of the Group in the period of initial application except for application of IFRS 9 due to change in measurement and disclosures related to financial instruments.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis, adjusted by revaluation of financial instruments that are carried at fair value, in accordance with International Financial Reporting

Standards ('IFRSs') issued by the International Accounting Standards Board and Croatian law.

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

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

The Group prepared these consolidated financial statements in accordance with Croatian regulations and IFRSs, and authorised them for issue on 10 March 2011.

3.3. MATTERS AFFECTING PRIOR YEARS

3.3.a) Restatement of prior periods

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

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

The 2008 consolidated 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.
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 at 1 January 2008 of retained earnings 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	37	-	40,058	40,058
Total liabilities		**2,671,600**	**2,711,658**	**40,058**
Retained earnings	32	258,578	218,520	(40,058)
Total equity		**1,963,505**	**1,923,447**	**(40,058)**
Statement on the comprehensive income for the year ended 31 December 2008				
Revenue from the sale and leaseback transaction	6	-	2,867	2,867
Profit for the year		**44,596**	**47,463**	**2,867**

3.3.b) Option agreements

Podravka d.d. 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 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	37	-	92,932	92,932
Total liabilities		**2,504,673**	**2,597,605**	**92,932**
Accumulated losses	32	(95,849)	(188,781)	(92,932)
Total Equity		**1,632,028**	**1,539,096**	**(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	**32**	**(288,059)**	**(380,991)**	**(92,932)**

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 consolidated financial statements and reports of Podravka d.d.

3.4. Basis of consolidation

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

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

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

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

3.5. Goodwill

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

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

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

3.6. Non-current assets held for sale

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

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

3.7. Revenue recognition

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

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

(a) Sales of products and trade goods – wholesale

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

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

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

(b) Sales of products and goods – retail

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

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

(f) Government subsidies

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

3.8. Leases

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

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

Sale and leaseback transactions

A sale and leaseback transaction involves the sale of an asset and the leasing back of the same asset. The lease payment and the sale price are usually interdependent because they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved.
If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is not immediately recognised as income by a seller-lessee. Instead, it is deferred and amortised over the lease term.

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

3.9. Foreign currencies

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and 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).

3.10. Borrowing costs

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

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

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

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

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

3.11. Share-based payments

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

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

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

3.12. Government grants

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

3.13. Dividends

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

3.14. Segment reporting

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

3.15. Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

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

Value added tax

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

3.16. Property, plant and equipment

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

Subsequent expenditure is included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred. Land and assets under construction are not depreciated. Depreciation of other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	2010	2009
Buildings	10 to 50 years	10 to 50 years
Equipment	3 to 30 years	3 to 30 years

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.18).
Gains and losses on disposals are determined by comparing the proceeds with carrying amount, and are recognised within line item 'Other gains/(losses) – net' in the consolidated statement of comprehensive income.

3.17. 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 3.18).

Computer software

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

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

3.18. Impairment of tangible and intangible assets

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

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

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

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

3.19. Inventories

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

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

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

Small inventory and tools are expensed when put into use.

3.20. Trade receivables

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

3.21. Cash and cash equivalents

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

3.22. Share capital

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

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

3.23. Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

(c) Regular retirement benefits

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

(d) Long-term employee benefits

For defined benefit retirement benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each reporting date. Actuarial gains and 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 Group recognises a provision for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(f) Share-based compensation

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

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

3.24. Provisions

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

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

3.25. Financial assets

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

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

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets (AFS)

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

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 39. Gains and 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 all other financial assets, objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 120 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.

Derecognition of financial assets

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

3.26. Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

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

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

Contracts on financial guarantee

Agreement on the financial guarantee is a contract under which the issuer is obligated to pay the holder a certain sum as compensation for 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 Group initially measured at fair value and subsequently, if they are not destined for at fair value through profit or loss, the higher of:

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

Derecognition of financial liabilities

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

3.27. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period.
During 2010, the directors determined that the useful life of certain items of property, plant and equipment exceeded the original estimates, resulting in a decreased depreciation charge of HRK 1,516 thousand.
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 4,161 thousand.

Impairment of non-current assets, including goodwill

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, time values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure.
Based on the calculation of the net present value of future cash flows in 2010, no impairment was recognized.
Based on the calculation of the net present value of future cash flows in 2009, intangible assets were impaired as follows: brands by HRK 39,270 thousand; distribution rights by HRK 7,200 thousand; pharmaceutical rights by HRK 1,525 thousand, and goodwill by HRK 5,758 thousand.

The carrying amount of goodwill is HRK 44,293 thousand (2009: HRK 42,877 thousand) (see 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 Group Management recognized deferred tax assets for temporary tax differences for the first time in the consolidated financial statements of the Group. Restatement of prior periods was not conducted due to the immaterial effect of the previous period. In 2009 and 2010 Group recognized deferred tax assets at the available tax differences.
The carrying amount of deferred tax assets was HRK 52,330 thousand (2008: HRK 53,589 thousand) (see Note 17).

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. At 31 December 2010, provisions for jubilee benefits amount to HRK 12,253 thousand and retirement bonuses amount to HRK 12,511 thousand. (2009: the provisions for jubilee benefits amounted to HRK 14,370 thousand and retirement bonuses amounted to HRK 9,761 thousand (see notes 36 and 38).

Consequences of certain legal actions

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

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION

Sales revenue

	2010	2009
	(in thousands of HRK)	
Product and merchandise sales	3,483,474	3,546,779
Service sales	38,798	40,357
	3,522,272	**3,587,136**

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

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

Segment revenues and results

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

	Segment revenue		**Segment profit**	
(in thousands of HRK)	2010	2009	2010	2009
Culinary	1,175,605	1,176,388	162,347	133,021
Food	742,652	724,891	46,545	28,751
Meat and Fish Products	502,279	517,479	6,160	11,283
Beverages and other	358,901	415,686	4,566	19,021
Pharmaceutical	742,835	752,692	108,718	101,510
	3,522,272	**3,587,136**	**328,336**	**293,586**

Investment revenue	13,048	7,076
Other losses, net	(50,856)	(439,653)
Central administration costs	(71,929)	(95,576)
Restructuring and other expenses	(13,742)	(32,721)
Finance costs	(95,521)	(98,048)
Profit / (loss) before tax	**109,336**	**(365,336)**

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

The Food segment comprises the following product groups: Baby Food, Spreads, Sweet Products, Snacks, Cereals, Fruit Products, Bakery and Mill Products, Frozen Products, Rice, Grains and Other Products.

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

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

The Pharmaceutical segment comprises the following: Ethical drugs, No Prescription Program.
The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, investment revenue and finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

	31/12/2010	31/12/2009
	(in thousands of HRK)	
Segment assets		
Culinary	1,132,645	1,169,833
Food	789,661	799,278
Beverages and other	490,974	510,551
Meat and fish Products	427,903	423,562
Pharmaceutical	1,105,534	1,168,315
Total segment assets	**3,946,717**	**4,071,539**
Unallocated	61,472	65,162
Consolidated assets	**4,008,189**	**4,136,701**

Segment liabilities	31/12/2010	31/12/2009
	(in thousands of HRK)	
Culinary	581,806	613,656
Food	406,167	419,276
Beverages and other	252,199	267,820
Meat and fish Products	219,801	222,187
Pharmaceutical	567,879	612,861
Total segment liabilities	**2,027,852**	**2,135,800**
Unallocated	345,519	461,805
Consolidated liabilities	**2,373,371**	**2,597,605**

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

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

Podravka Group

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
(in thousands of HRK)	2010	2009	2010	2009
Culinary	41,719	44,719	33,572	19,614
Food	30,904	31,254	9,933	13,271
Beverages and other	23,486	23,149	11,410	12,506
Meat and fish Products	16,695	15,626	7,865	7,816
Pharmaceutical	42,488	41,789	28,288	88,851
	155,292	**156,537**	**91,068**	**142,058**

Podravka Group

Geographical information

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

	Revenue from external customers		Non-current assets	
(in thousands of HRK)	**2010**	**2009**	**2010**	**2009**
Croatia	1,741,317	1,868,597	1,749,645	1,792,549
South-East Europe	815,215	860,121	152,962	153,641
Central and Eastern Europe	684,106	616,325	91,968	119,356
Western Europe and overseas countries	281,634	242,093	578	586
	3,522,272	**3,587,136**	**1,995,153**	**2,066,132**

Information about major customers

Third-party sales in Croatia account for 49 % of the total revenue from external customers, whereas the remaining 51 % represent foreign sales. Top 20 customers account for 43 % of the external sales.

NOTE 6 – INVESTMENT REVENUE

	2010	2009
	(in thousands of HRK)	
Interest on term deposits and trade debtors	8,280	8,952
Revenue from the sale and leaseback transaction	2,867	2,867
Interests on given loans	1,104	5,136
Impairment allowance on interest on loans and receivables	-	(10,731)
Other	797	852
	13,048	**7,076**

Investment revenue analysed by asset category:

	2010	**2009**
	(in thousands of HRK)	
Receivables for interest on trade receivables and other receivables	8,280	8,952
Other financial assets	4,768	(1,876)
	13,048	**7,076**

NOTE 7 – OTHER LOSSES, NET

	2010	2009
	(in thousands of HRK)	
Losses on remeasurement of liabilities at fair value through statement of the comprehensive income	(34,157)	(16,907)
Losses per company share option contracts	(21,008)	(92,932)
Impairment losses on value adjustment of financial assets, net	(1,649)	(5,966)
Gains / (losses) on disposal of non-current assets, net	4,661	(10,225)
Grant income (subsidies)	2,957	4,755
Impairment losses on guarantees given	-	(133,166)
Impairment losses on loans and receivables	-	(129,947)
Impairment losses on brands	-	(39,270)
Impairment losses on intangible rights	-	(8,725)
Impairment losses on goodwill	-	(5,758)
Other adjustments	89	(369)
	(49,107)	**(438,510)**
Foreign exchange losses, net	(1,749)	(1,143)
	(50,856)	**(439,653)**

NOTE 8 – COST OF GOODS SOLD

	2010	2009
	(in thousands of HRK)	
Raw material and supplies, cost of sold merchandise	1,548,270	1,600,663
Staff costs	326,068	328,798
Depreciation	101,028	100,148
Energy	62,504	56,556
Maintenance	24,723	21,151
Other	12,719	34,365
	2,075,312	**2,141,681**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2010	2009
	(in thousands of HRK)	
Staff costs	143,966	189,577
Depreciation	25,674	26,211
Services	23,672	27,285
Bank charges	11,448	11,374
Other cost of material and energy	8,800	7,778
Rental costs	7,218	16,261
Taxes and contributions independent of operating results	6,422	7,838
Telecommunications	4,279	6,181
Professional training and literature	2,708	4,604
Entertainment	2,476	2,395
Per diems	1,816	3,134
Other	9,170	10,696
	247,649	**313,334**
Capitalised development project costs	-	(13,469)
	247,649	**299,865**

During 2010 there was no capitalisation of products development costs since products, whose development started in 2010, have not met criteria for being recognised as intangible assets, and which are required by IAS 38 “Intangible assets“ (note 3.17)

NOTE 10 – SELLING AND DISTRIBUTION COSTS

	2010	2009
	(in thousands of HRK)	
Staff costs	259,497	263,830
Rentals	54,626	56,944
Service costs	48,914	50,988
Transportation	44,904	45,897
Energy	27,923	24,152
Depreciation	24,000	26,846
Net provision for trade receivables	18,304	20,760
Consultancy services and one-off service agreement	11,668	11,797
Maintenance	11,338	11,367
Other material costs	10,737	10,247
Per diems	9,012	11,232
Entertainment	7,056	7,000
Telecommunications	5,947	7,107
Taxes and contributions independent of operating results	4,665	5,775
Professional literature, administrative duties and other	3,824	3,796
Inventory deficit	2,863	2,178
Other	8,879	13,461
	554,157	**573,377**

NOTE 11 – MARKETING EXPENSES

	2010	2009
	(in thousands of HRK)	
Retail trader and consumer marketing	142,200	115,018
Media investments	76,162	87,558
Staff costs	74,364	68,509
Other marketing expenses	37,725	56,259
Entertainment	18,728	20,014
Services	15,095	12,507
Market research	7,696	8,485
Rental costs	5,799	5,886
Per diems	5,049	4,509
Depreciation	4,590	3,333
Energy	2,826	2,112
Telecommunications	2,295	2,289
Transportation	2,213	1,893
Taxes and contributions independent of operating results	435	3,829
Other expenses	6,039	4,727
	401,216	**396,928**

NOTE 12 – OTHER EXPENSES

	2010	2009
	(in thousands of HRK)	
Interest expense on trade payables	1,252	9,924
Other interest and finance costs	21	72
	1,273	**9,996**

NOTE 13 – EXPENSES BY NATURE

	2010	2009
	(in thousands of HRK)	
Raw material and consumables used, energy and cost of goods sold	1,651,654	1,684,322
Staff costs	803,895	850,715
Advertising and promotion	263,783	267,320
Depreciation	155,292	156,537
Services	148,530	150,324
Rental costs	72,778	82,851
Transportation	49,623	50,375
Entertainment	28,459	29,736
Taxes and contributions independent of operating results	21,541	27,133
Net provision for trade receivables	18,304	20,760
Per diems and travel expenses	16,655	19,730
Telecommunications	13,668	17,232
Bank charges	12,358	12,327
Capitalised development project costs	-	(13,469)
Other expenses	21,794	55,958
	3,278,334	**3,411,851**

NOTE 14 – STAFF COSTS

	2010	2009
	(in thousands of HRK)	
Salaries	778,437	796,025
Share options	(2,957)	2,725
Termination benefits	8,101	27,682
Provisions for liabilities to employees	(333)	6,382
Transport	11,054	10,542
Other	9,593	7,359
	803,895	**850,715**

As at 31 December 2010, the number of staff employed by the Group was 6,570 (2009: 6,534).

In 2010, accrued and paid retirement incentives for 61 employees amounted to HRK 8,101 thousand.
In 2009, retirement benefits in the amount of HRK 39,869 thousand were accrued and paid for 350 employees, of which non-taxable in the amount of HRK 38,032 thousand and taxable in the amount of HRK 1,837 thousand, reported within salary costs.

NOTE 15 – FINANCE COSTS

	2010	2009
	(in thousands of HRK)	
Interest expense on short-term borrowings	32,679	41,597
Interest expense on long-term borrowings	21,851	26,203
Interest expense from issued bonds and other	21,710	21,587
Interest expense on commercial papers	10,951	9,845
Unrealised loss per interest swap contract	4,137	-
	91,328	99,232
Net foreign exchange losses / (gains) on borrowings	4,193	(1,184)
	95,521	**98,048**

During 2010 and 2009, the Group had no investments on which interest expense would be capitalised. On 27 May 2009 Podravka d.d. 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 consolidated statement of comprehensive income as follows:

	2010	2009
	(in thousands of HRK)	
Other (losses) / gains, net	(1,749)	(1,143)
Net foreign gains / (losses) on borrowings	(4,193)	1,184
	(5,942)	**41**

NOTE 17 – INCOME TAX

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate of 20.3 % (2009: 19.5 %) applicable to the Group's result as follows:

	2010	2009 restated
	(in thousands of HRK)	
Profit / (loss) before taxation	109,336	(365,336)
Tax calculated at weighted average tax rates applicable to profits in the respective countries	22,178	11,530
Effect of permanent differences, net	13,813	8,806
Effect of tax benefits (research and development, education and other allowances)	(3,045)	(1,967)
Effect of utilised tax losses brought forward	(7,684)	(2,898)
Income tax expense recognised in statement of the comprehensive income	25,262	15,471

Unused tax losses:	2010	2009
	(in thousands of HRK)	
Unused tax losses	127,191	162,085
The availability of unused tax losses expires as follows:		
	(in thousands of HRK)	
Up to 2010	-	2,142
Up to 2011	23,425	60,804
Up to 2012	27,071	27,297
Up to 2013	67,063	68,742
Up to 2014	4,575	3,100
Up to 2015	5,057	-

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

	2010	2009
	(in thousands of HRK)	
Deferred tax liabilities	7,141	7,616
Deferred tax assets	52,330	53,589

In accordance with Croatian tax regulations, by the end of 2010 the Group realised tax losses in the amount of HRK 127,191 thousand (2009: HRK 162,085 thousand), which may be utilised up to 2015 at the latest. Unutilised tax losses are not recognised as deferred tax assets in the consolidated statement of financial position, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

Deferred tax assets arise from the following:

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

Deferred tax liabilities arise from the following:

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

Deferred tax assets arise from the following:

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

Deferred tax liabilities arise from the following:

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

NOTE 18 –EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share

Basic earnings / (loss) per share are determined by dividing the Group'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 restated
Net profit / (loss) attributable to shareholders (in thousands of HRK)	84,235	(380,991)
Weighted average number of shares	5,242,492	5,243,961
Basic earnings / (loss) per share (in kunas and lipas)	**16.07**	**(72.65)**

Diluted earnings / (loss) 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 31,000 were not exercised (2009: 63,900 options).

	2010	2009 restated
Net profit / (loss) attributable to shareholders (in thousands of HRK)	84,235	(380,991)
Weighted average number of shares	5,273,492	5,307,861
Diluted earnings / (loss) per share (in kunas and lipas)	**15.97**	**(71.78)**

NOTE 19 – DIVIDEND 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 Group's reserves.

NOTE 20 - GOODWILL

(in thousands of HRK)	2010	2009	2008
Cost		*(in thousands of HRK)*	
At 1 January	73,969	73,969	54,442
Additions	-	-	19,527
At 31 December	**73,969**	**73,969**	**73,969**
Accumulated impairment losses			
At 1 January	31,092	25,541	23,323
Impairment losses recognised during the year	-	5,758	2,278
Effect of changes in the foreign exchange rates	(1,416)	(207)	(60)
At 31 December	**29,676**	**31,092**	**25,541**
Carrying amount at 31 December	**44,293**	**42,877**	**48,428**

During 2010 the Group has not impaired goodwill as a result of annual goodwill impairment test (2009: HRK 5,758 thousand).

NOTE 21 – INTANGIBLE ASSETS

	2010	2009	2008
	(in thousands of HRK)		
Cost	542,889	524,129	497,213
Accumulated amortization	(234,849)	(212,520)	(153,614)
	308,040	**311,609**	**343,599**

	2010	2009	2008
	(in thousands of HRK)		
Brand	129,970	129,930	147,615
Software	97,238	84,014	70,622
Intangibles under construction	18,617	32,696	45,521
Distribution and other rights	7,880	10,634	23,981
Pharmaceutical rights	54,335	54,335	55,860
	308,040	**311,609**	**343,599**

(in thousands of HRK)	**Software**	**Distribution rights**	**Brand**	**Investments in progress**	**Total**
Cost					
At 1 January 2009	190,214	103,322	158,156	45,521	497,213
Effect of changes in the foreign exchange rates	(31)	183	77	(152)	77
Additions	1,665	2,534	-	18,728	22,927
Capitalised projects	-	-	-	13,469	13,469
Transfers	17,881	5,405	21,584	(44,870)	-
Disposals	(9,557)	-	-	-	(9,557)
At 31 December 2009	**200,172**	**111,444**	**179,817**	**32,696**	**524,129**
Accumulated amortisation					
At 1 January 2009	(119,592)	(23,481)	(10,541)	-	(153,614)
Effect of changes in the foreign exchange rates	28	(53)	(76)	-	(101)
Eliminated on disposal	9,552	-	-	-	9,552
Charge for the year	(6,146)	(14,216)	-	-	(20,362)
Impairment losses recognized during the year	-	(8,725)	(39,270)	-	(47,995)
At 31 December 2009	**(116,158)**	**(46,475)**	**(49,887)**	**-**	**(212,520)**
Carrying amount at 31 December 2009	**84,014**	**64,969**	**129,930**	**32,696**	**311,609**

NOTE 21 – INTANGIBLE ASSETS (continued)

Cost					
At 1 January 2010	200,172	111,444	179,817	32,696	524,129
Effect of changes in the foreign exchange rates	357	624	553	2	1,536
Additions	379	-	-	16,966	17,345
Transfers	23,273	7,734	40	(31,047)	-
Eliminated on disposal	(121)	-	-	-	(121)
At 31 December 2010	**224,060**	**119,802**	**180,410**	**18,617**	**542,889**
Accumulated amortisation					
At 1 January 2010	(116,158)	(46,475)	(49,887)	-	(212,520)
Effect of changes in the foreign exchange rates	(341)	(411)	(553)	-	(1,305)
Disposals	48	-	-	-	48
Charge for the year	(10,371)	(10,701)	-	-	(21,072)
At 31 December 2010	**(126,822)**	**(57,587)**	**(50,440)**	**-**	**(234,849)**
Carrying amount at 31 December 2010	**97,238**	**62,215**	**129,970**	**18,617**	**308,040**

At the end of the reporting period, the Company reassessed the recoverable amount of its brands and determined that there was no impairment (2009: brands were impaired by HRK 39,270 thousand). The recoverable amount of the cash generating unit has been estimated on the basis of the discounted cash flow model.

In 2009, the impairment allowance on distribution rights amounts to HRK 8,725 thousand.

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

NOTE 22 – PROPERTY, PLANT AND EQUIPMENT

(in thousands of HRK)	**Land and buildings**	**Equipment**	**Assets under construction**	**Total**
Cost				
At 1 January 2009	2,110,031	1,669,684	102,790	3,882,505
Effect of changes in the foreign exchange rate	283	189	(415)	57
Additions	1,126	12,941	99,593	113,660
Transfers	31,305	46,477	(77,782)	-
Disposals and retirements	(13,031)	(46,524)	(11,497)	(71,052)
At 31 December 2009	**2,129,714**	**1,682,767**	**112,689**	**3,925,170**
Accumulated depreciation				
At 1 January 2009	(916,550)	(1,195,097)	-	(2,111,647)
Effect of changes in the foreign exchange rate	(158)	(243)	-	(401)
Additions	-	(7,998)	-	(7,998)
Disposals	136	42,561	-	42,697
Charge for the year	(64,608)	(71,567)	-	(136,175)
At 31 December 2009	**(981,180)**	**(1,232,344)**	**-**	**(2,213,524)**
Carrying amount at 31 December 2009	**1,148,534**	**450,423**	**112,689**	**1,711,646**
Cost				
At 1 January 2010	2,129,714	1,682,767	112,689	3,925,170
Effect of changes in the foreign exchange rate	5,245	3,808	(1,670)	7,383
Additions	4,114	6,819	65,146	76,079
Transfers	56,082	60,892	(116,974)	-
Disposals and retirements	(9,370)	(25,527)	(5,284)	(40,181)
At 31 December 2010	**2,185,785**	**1,728,759**	**53,907**	**3,968,451**
Accumulated depreciation				
At 1 January 2010	(981,180)	(1,232,344)	-	(2,213,524)
Effect of changes in the foreign exchange rate	(1,383)	(3,516)	-	(4,899)
Additions	-	(2,356)	-	(2,356)
Disposals	3,176	26,192	-	29,368
Charge for the year	(63,561)	(70,659)	-	(134,220)
At 31 December 2010	**(1,042,948)**	**(1,282,683)**	**-**	**(2,325,631)**
Carrying amount at 31 December 2010	**1,142,837**	**446,076**	**53,907**	**1,642,820**

Group buildings and land of net book value of HRK 808,584 thousand (2009: HRK 722,905 thousand) have been mortgaged against the Group borrowings.

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

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

	2010	**2009**	**2008**
		(in thousands of HRK)	
Cost of capitalised finance leases	66,972	94,058	83,741
Accumulated depreciation	(16,813)	(27,326)	(22,967)
Net book value	**50,159**	**66,732**	**60,774**

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

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

The 2008 consolidated financial statements have been adjusted to reflect the correction of the error in recognising the income from the sale and leaseback transaction so as to make it compliant with IAS 17.
The correction of the balances from the beginning of the comparative period (2007) has resulted in an increase in deferred income and an adjustment (decrease) of the opening balance at 1 January 2008 of retained earnings in the amount of HRK 42,925 thousand.

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 3.3.a).

NOTE 23 –SUBSIDIARIES

Name of subsidiary	**Country of incorporation**	**Proportion of ownership interest and voting power held by the Group (%)**		**Principal activity**
		2010	**2009**	
Subsidiaries in Croatia				
Belupo d.d., Koprivnica	Croatia	100.00	100.00	Production and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	100.00	100.00	Meet processing and production
Lero d.o.o., Rijeka	Croatia	100.00	100.00	Fruit and vegetable juice and beverage production
Ital-Ice d.o.o., Poreč	Croatia	100.00	100.00	Ice cream manufacture
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100.00	100.00	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100.00	100.00	Purchase and sale of goods; meal preparation and catering services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100.00	100.00	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100.00	100.00	Trade
Subsidiaries in foreign countries				
Lagris a.s., Lhota u Luhačovic	Czech Rep.	100.00	100.00	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100.00	100.00	Seasonings manufacture and sale
Podravka-International Kft, Budapest	Hungary	100.00	100.00	Sale and distribution
Podravka d.o.o., Ljubljana	Slovenia	100.00	100.00	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100.00	100.00	Sale and distribution
Podravka-Int. Deutschland –"Konar" GmbH	Germany	100.00	100.00	Sale and distribution
Podravka-International s.r.o., Zvolen	Slovakia	75.00	75.00	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	100.00	100.00	Sale and distribution
Podravka International, Turska	Turkey	75.00	75.00	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	98.88	98.88	Sale and distribution
Sana d.o.o., Hoče	Slovenia	100.00	100.00	Wafers
Podravka-International s.r.l., Bucharest	Romania	100.00	100.00	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100.00	100.00	Sale and distribution
Podravka d.o.o., Sarajevo	Bosnia &	100.00	100.00	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100.00	100.00	Sale and distribution
Podravka-International Inc. Wilmington	SAD	100.00	100.00	Sale and distribution

NOTE 24 – LONG TERM FINANCIAL ASSETS

	2010	2009	2008
		(in thousands of HRK)	
Loans	7,579	9,353	57,807
Impairment allowance on loans	(3,332)	(3,332)	-
Other receivables and deposits	4,895	5,552	4,021
	9,142	**11,573**	**61,828**

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

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

NOTE 25 – INVENTORIES

	2010	2009	2008
		(in thousands of HRK)	
Raw materials and supplies	222,394	219,607	213,124
Work in progress	36,291	42,415	44,432
Finished goods	246,637	214,450	212,094
Trade goods	186,772	170,367	162,110
	692,094	**646,839**	**631,760**

In 2010, a reversal of impairment losses in the amount of HRK 4,687 thousand was credited (2009: HRK 136 thousand charged), which is included in the statement of comprehensive income in line item 'Cost of goods sold-other' (Note 8).

NOTE 26 – TRADE AND OTHER RECEIVABLES

	2010	2009	2008
		(in thousands of HRK)	
Current receivables			
Trade receivables	1,072,197	1,179,505	1,297,734
Less: Provisions for impairment	(125,924)	(115,873)	(111,428)
Net trade receivables	**946,273**	**1,063,632**	**1,186,306**
Advances to suppliers	6,111	3,393	7,243
Restricted deposit	45,788	45,298	-
Loans given	61,517	61,487	18,542
Impairment allowance on loans	(61,197)	(61,197)	-
Bills of exchange received	25,720	25,256	3,199
Other receivables	59,331	49,105	71,609
Total current receivables	**1,083,543**	**1,186,974**	**1,286,899**

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

Restricted deposit relates to a deposit with bank given in 2009 for the purpose of covering the difference in the price as per the Agreement on the Sale and Transfer of Podravka d.d. shares. The deposit funds are not available to the Group until the expiry of the Agreement and/or exercise of the options under the Agreement. Thus, the recovery of the deposit will depend on the final outcome in respect of the Agreement (See Notes 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	2008
		(in thousands of HRK)	
At 1 January	115,873	111,428	108,701
Increase	21,231	24,212	17,522
Amounts collected	(2,927)	(3,452)	(6,642)
Written off as uncollectible	(8,253)	(16,315)	(8,153)
At 31 December	**125,924**	**115,873**	**111,428**

Impairment allowance for trade receivables and subsequent collections on the Group level were included in 'Selling and distribution expenses' (Note 10).
Ageing analysis of trade receivables past due but not impaired

	2010	2009	2008
		(in thousands of HRK)	
0-90 days	238,461	267,384	275,634
91-180 days	75,223	133,043	146,979
181-360 days	26,940	25,619	69,169
	340,624	**426,046**	**491,782**

Other receivables at 31 December were as follows:

	2010	2009	2008
		(in thousands of HRK)	
Net VAT receivable	29,700	26,852	35,170
Prepaid expenses	18,226	11,698	12,834
Receivables in respect of interest accrued on given loans	10,974	11,266	8,143
Impairment allowance on loan interest receivable	(10,974)	(11,266)	(534)
Other receivables under forced collection proceedings	65,000	65,000	-
Impairment allowance on other financial receivables under forced collection proceedings	(65,000)	(65,000)	-
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)	-
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)
Prepaid income taxes	3,367	1,441	5,559
Receivables from employees	2,482	2,882	2,421
Other receivables – gross	6,592	7,268	9,052
Impairment allowance for other receivables	(1,036)	(1,036)	(1,036)
Total current receivables	**59,331**	**49,105**	**71,609**

Impairment allowances made during 2009 comprise the following:

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

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

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

	2010	2009	2008
		(in thousands of HRK)	
Investments in:			
Investment funds	14,796	22,321	23,416
	14,796	**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	10,000	8,989
Disposals	(15,876)	(4,088)
Effect of remeasurement at fair value	(1,649)	(5,996)
Closing net book value	**14,796**	**22,321**

NOTE 28 – CASH AND CASH EQUIVALENTS

	2010	2009	2008
		(in thousands of HRK)	
Cash with banks	138,539	114,384	262,812
Short-term deposits – up to 3 months	13,163	29,561	148,639
Cash in hand	546	647	500
Cheques, deposits and securities	115	677	7,297
	152,363	**145,269**	**419,248**

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

	2010	2009	2008
		(in thousands of HRK)	
Property at A. Starčevića 29, Koprivnica	3,150	-	-
Property at Trg bana J. Jelačića 16, Koprivnica	1,952	-	-
Property at the subsidiary Podravka Kft, Budapest	3,666	4,004	4,517
	8,768	**4,004**	**4,517**

NOTE 30 – SHARE CAPITAL

	2010	2009	2008
		(in thousands of HRK)	
Ordinary shares	1,626,001	1,626,001	1,626,001
Capital gains	22,337	25,294	22,569
Own shares	(67,604)	(67,604)	(61,214)
	1,580,734	**1,583,691**	**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)
Fair value of share based payments	-	-	2,725	-	2,725
At 31 December 2009	**5,242,492**	**1,626,001**	**25,294**	**(67,604)**	**1,583,691**
At 1 January 2010	**5,242,492**	**1,626,001**	**25,294**	**(67,604)**	**1,583,691**
Fair value of share based payments	-	-	(2,957)	-	(2,957)
At 31 December 2010	**5,242,492**	**1,626,001**	**22,337**	**(67,604)**	**1,580,734**

As at 31 December 2010, the Group'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 40 to the consolidated financial statements.

NOTE 31 – RESERVES

	2010	2009	2008
	(in thousands of HRK)		
Legal reserves	45,256	45,168	44,516
Other reserves	35,207	31,557	15,230
Reserves for treasury shares	35,345	35,345	26,014
Translation reserve	11,129	(2,245)	(2,302)
	126,937	**109,825**	**83,458**

(in thousands of HRK)	Legal reserves	Other reserves	Translation reserve	Reserves for treasury shares	Total
At 1 January 2009	44,516	15,230	(2,302)	26,014	83,458
Transfer to reserves /ii/	652	16,327	-	9,331	26,310
Exchange differences	-	-	57	-	57
At 31 December 2009	**45,168**	**31,557**	**(2,245)**	**35,345**	**109,825**
At 1 January 2010	45,168	31,557	(2,245)	35,345	109,825
Transfer to reserves /ii/	88	3,650	-	-	3,738
Exchange differences	-	-	13,374	-	13,374
At 31 December 2010	**45,256**	**35,207**	**11,129**	**35,345**	**126,937**

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

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

According to the decisions of the General Assemblies in 2009, HRK 652 thousand have been appropriated to legal reserves. In statutory and other reserves in 2009 have been appropriated HRK 16,327 thousand. . Podravka d.d. appropriated HRK 9,331 thousand in treasury shares reserves.

NOTE 32 – (ACCUMULATED LOSS) / RETAINED EARNINGS

	31/12/2010	31/12/2009 restated	31/12/2008 restated
	(in thousands of HRK)		
(Accumulated losses) / retained earnings	(107,200)	(188,781)	218,520

	2010	2009	2008
At 1 January	(188,781)	218,520	177,864
- transfer to legal and other reserves	(2,654)	(26,310)	(7,838)
- loss coverage	-	-	43,813
- profit / (loss) for the period prior to correction	84,235	(288,059)	47,606
- effect of the correction of loss on share option contracts	-	(92,932)	-
- effect of the correction of sale and leaseback income	-	-	(42,925)
At 31 December	**(107,200)**	**(188,781)**	**218,520**

NOTE 33 – NON-CONTROLLING INTERESTS

	2010	2009
	(in thousands of HRK)	
Balance at 1 January	34,361	34,113
Exchange differences	147	64
Non-controlling interests on acquisition	(161)	184
Balance at 31 December	**34,347**	**34,361**

NOTE 34 - 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 statement of the financial position were as follows:

	2010			2009		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	%	%	%	%	%
Bonds issued	5.32	-	-	5.32	-	-

NOTE 35 – BORROWINGS

	2010	2009	2008
Non-current borrowings		*(in thousands of HRK)*	
Banks in Croatia	247,749	41,940	43,327
Banks in foreign countries	283,578	376,165	525,161
Finance lease	27,630	34,811	29,084
	558,957	**452,916**	**597,572**
Current borrowings			
Banks in Croatia	336,830	376,396	792,452
Banks in foreign countries	240,060	423,339	60,358
Finance lease	4,306	4,851	3,716
Other	495	464	1,929
	581,691	**805,050**	**858,455**
Total borrowings	**1,140,648**	**1,257,966**	**1,456,027**

Bank borrowings in the amount of HRK 840,717 thousand (2009: HRK 720,717 thousand of long term borrowings and HRK 120,000 thousand of short term borrowings), (HRK 712,190 thousand) are secured by mortgages over the Group land and buildings (Note 22).

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2010	2009	2010	2009	2010	2009
			(in thousands of HRK)			
Up to 1 year	6,300	7,345	2,550	2,494	3,750	4,851
Between 1 and 5 years	22,255	27,072	8,702	10,078	13,553	16,994
After 5 years	17,529	23,179	4,087	5,362	13,442	17,817
Less: future finance charges	**(15,339)**	**(17,934)**	**15,339**	**17,934**	**30,745**	**39,662**
Present value of minimum lease payments	**30,745**	**39,662**			**30,745**	**39,662**

Included in the consolidated financial statements within:		
Current borrowings	4,306	4,851
Non-current borrowings	27,630	34,811
	31,936	**39,662**

The exposure of the Group'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	401,386	466,326
6 – 12 months	144,835	284,663
1 – 5 years	594,427	506,977
	1,140,648	**1,257,966**

If the interest rate on borrowings at variable rates increases by 4.52 on average, the liability in respect of interest would increase by HRK 3,079 thousand (2009: for an interest rate increase of 4.14 %, the interest payable would increase by HRK 3,802 thousand).

The maturity of non-current borrowings is as follows:

	2010	2009
	(in thousands of HRK)	
Between 1 and 2 years	366,645	121,023
Between 2 and 5 years	176,909	314,076
Over 5 years	15,403	17,817
	558,957	**452,916**

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

	2010			2009		
	HRK	**EUR**	**Other**	**HRK**	**EUR**	**Other**
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	7.90	5.28	-	5.73	6.99	-
Banks in foreign countries	-	3.55	4.94	-	3.88	4.46
Finance lease	-	6.46	-	-	6.43	-
Other	-		-	-	-	8.53
Current borrowings						
Banks	6.72	-	5.39	6.99	6.94	5.24
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 non-current borrowings are as follows:

	Carrying amounts		Fair values	
	2010	2009	2010	2009
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Banks in Croatia	247,749	41,940	247,939	42,093
Banks in foreign countries	283,578	376,165	283,578	376,165
Finance lease	27,630	34,811	27,630	34,811
	558,957	**452,916**	**559,147**	**453,069**

The fair values are based on cash flows discounted using a rate based on the borrowing rate of 5.05 % (2009: 2.71%).

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

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

	2010	2009
	(in thousands of HRK)	
HRK	341,286	206,266
EUR	690,307	938,340
Other currencies	109,055	113,360
	1,140,648	**1,257,966**

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

The Company has the following undrawn borrowing facilities:

	2010	2009
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	530,972	96,293
	530,972	**96,293**

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. The remaining part refers to amount fo opening letters of credit for import goods with deferred payment and unused revolving loans of other companies in the Group.

NOTE 36 – PROVISIONS

(in thousands of HRK)	Jubilee awards	Vacation accruals	Regular termination benefits	Termination benefits - incentives	Legal actions	Total
Analysis of total provisions as at 31 December 2009						
Non-current	12,154	-	9,634	102	7,336	29,226
Current	2,216	17,532	127	2,547	2,066	24,488
At 1 January 2010	**14,370**	**17,532**	**9,761**	**2,649**	**9,402**	**53,714**
Charged/(credited) to profit or loss:						
Increase of provisions	77	13,959	2,886	3,386	1,963	22,271
Utilised during the year	(2,194)	(15,952)	(136)	(2,649)	(1,163)	(22,094)
At 31 December 2010	**12,253**	**15,539**	**12,511**	**3,386**	**10,202**	**53,891**
Analysis of total provisions as at 31 December 2010:						
Non-current	10,110	-	12,321	-	7,606	30,037
Current	2,143	15,539	190	3,386	2,596	23,854
	12,253	**15,539**	**12,511**	**3,386**	**10,202**	**53,891**

Employee benefits

This provision comprises estimated employee benefits relating to unused vacation days and jubilee awards, as defined by the collective bargaining agreement, and bonuses to executive directors. The non-current provision relates to the estimated acquired rights to jubilee awards that will be paid after 2010.

The current amount of employee benefits includes HRK 15,539 thousand in respect of unused vacation days, HRK 3,576 thousand in respect to regular termination benefits and retirement incentives, and HRK 2,143 thousand in respect of jubilee benefits that will be paid in 2011.

Legal actions

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

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

NOTE 37 – TRADE AND OTHER PAYABLES

	2010	**2009** restated	**2008**
		(in thousands of HRK)	
Trade payables	508,963	533,918	652,920
Other liabilities	291,628	408,091	231,591
	800,591	**942,009**	**884,511**

At 31 December 2010 and 31 December 2009, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other liabilities include the following:

	2010	**2009** restated	**2008**
		(in thousands of HRK)	
Accrued liabilities per share option contract	113,940	92,932	-
Salaries and other benefits to employees	61,340	62,942	74,545
Deferred lease income	34,323	37,190	40,058
Accrued expenses	31,631	68,108	67,269
Accrued interest not yet due on bonds and borrowings	19,312	18,017	27,454
Taxes, contributions and other duties payable	10,570	10,499	8,531
Packaging waste disposal fee payable	7,030	6,924	(657)
Advances received	2,704	2,713	2,986
Dividends payable	687	1,772	1,780
Accrued expenses in respect of a guarantee given	-	102,610	-
Other liabilities	10,091	4,384	9,625
	291,628	**408,091**	**231,591**

In 2010 the Group settled liabilities for guarantee given to Fima Grupa d.d., Varaždin in the amount of HRK 102,610 thousand.

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. This transaction was made in accordance with the matter described in Note 3.3 b.

NOTE 38 – RETIREMENT BENEFIT PLAN

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

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

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

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

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

	2010	**2009**
Discount rate	6.5%	6.2 %
Fluctuation rate	2.08-11.88%	4.88 – 10.00 %
Average expected remaining working lives (in years)	22	22

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

	2010	**2009**
	(in thousands of HRK)	
Current service cost	1,038	1,061
Interest expense	1,358	1,252
Net actuarial loss / (gain) for the year	568	(1,116)
Benefits paid	(2,401)	(2,090)
Other actuarial adjustments	70	421
	633	**(472)**

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

	2010	**2009**
	(in thousands of HRK)	
Present value of jubilee awards	12,253	14,370
Present value of termination benefits	12,511	9,761
Obligation reported in the consolidated statement of financial position	**24,764**	**24,131**

Of which by maturity:

	2010	2009
	(in thousands of HRK)	
Short-term	22,431	2,343
Long-term	2,333	21,788
	24,764	**24,131**

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

	2010	2009
	(in thousands of HRK)	
At 1 January	24,131	24,603
Current service cost	1,038	1,061
Interest expense	1,358	1,252
Actuarial losses / (gains)	568	(1,116)
Benefits paid	(2,401)	(2,090)
Other actuarial adjustments	70	421
At 31 December	**24,764**	**24,131**

NOTE 39 – FINANCIAL INSTRUMENTS

39.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

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

The gearing ratio at the reporting date was as follows:

	2010	2009
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	1,511,748	1,594,266
Cash and cash equivalents	(152,363)	(145,269)
Net debt	1,359,385	1,448,997
Equity	1,600,471	1,504,735
Net debt to equity ratio	84.94%	96.30%

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

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

39.2. Categories of financial instruments

	2010	2009
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	1,185,018	1,290,266
Held-to-maturity investments – bills of exchange	25,720	25,256
Financial assets at fair value through profit or loss	14,796	22,321
Financial liabilities		
Finance lease obligations	30,745	39,662
Borrowings	1,109,903	1,218,304
Trade payables and other liabilities	780,996	924,965
Financial liabilities at fair value		
Financial liabilities at fair value	371,100	336,300

39.3. Financial risk management objectives

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

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

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

39.4. Market risk

Commodity risk management (price risk)

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

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

Sales function based risk

The Group generates approximately 49.0 % of its revenue on the domestic market, whereas around 51.0 % of the sales are generated on international markets, mainly through related entities. The Group determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

39.5. Foreign exchange risk management

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

	Liabilities		**Assets**	
	2010	**2009**	**2010**	**2009**
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	851,342	1,078,655	271,162	256,275
Bosnia and Herzegovina (BAM)	99,456	106,661	118,260	132,591
Poland (PLN)	36,632	26,406	72,897	61,134
USA (USD)	12,944	11,461	9,516	8,152
Other currencies	68,783	63,039	114,417	110,293

Foreign currency sensitivity analysis

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

The following table details the Group's sensitivity to a 0.5 % increase (2009: a 2.5 % decrease) in Croatian kuna against the relevant foreign currencies. The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR impact		**USD impact**	
	2010	**2009**	**2010**	**2009**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	2,763	-	-	123
Loss	-	16,186	81	-

	BAM impact		**PLN impact**	
	2010	**2010**	**2010**	**2009**
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	-	683	-	-
Loss	89	-	480	3,329

	Impact of other currencies	
	2010	**2009**
	(in thousands of HRK)	
Profit	270	273
Loss	-	-

The exposure to the fluctuations in exchange rates by 0.5 % is mainly attributable to the borrowings, trade payables and trade receivables denominated in Euro (EUR), in Polish Zloty (PLN), Convertible Marks (BAM) and US Dollar (USD).

39.6. Interest rate risk management

The Group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. A large majority of the Group's borrowings are at variable rates. The Group uses interest rate swap for managin interest rate risk (Note 15).

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the interest expense of the Group for the year 2010 would have changed by 3,079 HRK thousand (2009: 3,802 thousand).

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

39.7. Other price risk

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

39.8. Credit risk management

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

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

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

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

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

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

39.9. Liquidity risk management

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

Liquidity and interest rate tables

The following tables detail the Group's remaining contractual maturity for its financial liabilities presented in the consolidated statement of financial position at the period end.

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

	Weighted average effective interest rate	**Less than 1 month**	**1-3 months**	**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	-	476,003	116,091	143,140	11,939	19,987	767,160
Financial liabilities at fair value	5.32	-	-	371,100	-	-	371,100
Interest bearing	5.31	45,107	233,405	340,277	768,513	38,761	1,426,063
		521,110	349,496	854,517	780,452	58,748	2,564,323
2009							
Non-interest bearing	-	595,953	123,582	135,111	13,793	55,289	923,728
Financial liabilities at fair value	5.32	1,628	3,106	14,480	343,514	-	362,728
Interest bearing	5.49	13,467	487,049	334,068	606,684	25,127	1,466,395
		611,048	613,737	483,659	963,991	80,416	2,752,851

The Group's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 391,278 thousand (2009: HRK 412,493 thousand) and amounts due to employees in the amount of HRK 52,375 thousand (2009: HRK 63,603 thousand).

The non-interest bearing liabilities of the Group due in a period of over five years include, among others, other long-term liabilities in the amount of HRK 19,987 thousand (2009: HRK 36,842 thousand).

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

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

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2010							
Non-interest bearing	-	606,651	259,681	147,576	4,577	0	1,018,485
Interest bearing	0.63	149,731	47,766	6,745	2,825	14	207,081
		756,382	307,447	154,321	7,402	14	1,225,566
2009							
Non-interest bearing	-	807,546	199,091	120,597	9,683	-	1,136,917
Interest bearing	1.21	141,538	49,376	2,866	3,846	4,177	201,803
		949,084	248,467	123,463	13,529	4,177	1,338,720

39.10. Fair value of financial instruments

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

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

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

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

At 31 December 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.

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

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

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

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
		(in thousands of HRK)		
Financial assets at FVTPL				
Investment in investment funds	14,796	-	-	14,796
Total	**14,796**	**-**	**-**	**14,796**
Financial liabilities at FVTPL				
Bonds	371,100	-	-	371,100
Option on company shares	113,940	-	-	113,940
Interest 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 40 – SHARE BASED PAYMENTS

Employee share options

Options for the purchase of Podravka d.d. shares were granted to members of Management and certain executive directors in accordance with the applicable Contracts effective for the periods from 2000 to 2006, and those applicable in the years, 2007, 2008 and 2009.
The exercise price of the granted option equals the weighted average share price of Podravka d.d. shares per the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the beginning of the business year. Options are acquired separately for each business year.

Options granted to Podravka d.d. employees

The exercise period for the options granted until 2007 can be exercised after two to five years following the year in which they were acquired and are no longer exercisable upon the expiry of five years from the year in which they were acquired.

Those acquired in 2007 can be exercised within six months after two years from the year in which they were granted. Options granted in 2008 can be exercised after minimum one and maximum three years after the year in which they were granted.

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.

Options granted to Belupo d.d. employees

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

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

According to the valid contracts, the options granted for the years 2007, 2008 and 2009 could have been exercised upon the expiry of two years from the year in which they ware granted, within an exercise period of six months.

As at 7 May 2010, Belupo d.d. made new contracts with the Management Board President and members according to which, all options granted in the period up to this contract had to be exercised in the period of 6 months since the date of this contract and after that period, the right on exercise of options ceases. In accordance with that, due date for options granted in earlier periods has expired at 7 November 2010. Since the options were not exercised up to that date, the Group reversed existing share based payments in 2010.

As at 31 December 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 following serial shares under share-based payment arrangements were effective in the current and comparative reporting periods:

Option series	Number of options	Grant date	Exercise date	Exercise price	Fair value at the grant date
Series 31/12/2004	10,000	2004	2009	198.04	239.00
Series 31/12/2005	8,750	2005	2010	296.69	318.00
Series 31/12/2007	33,800	2007	2010	535.25	510.00
Series 31/12/2008	36,799	2008	2011	361.14	261.00
Options granted during 2009					
Series 31/12/2009	9,800	2009	2012	238.39	296.99
Options granted during 2010					
Series 31/12/2010	27,000	2010	2013	308.81	302.68

Inputs

	Option series					
	Series 31/12/2004	Series 31/12/2005	Series 31/12/2007	Series 31/12/2008	Series 31/12/2009	Series 31/12/2010
Grant date share price	239.00	318.00	510.00	261.00	296.99	302.68
Exercise price	198.04	296.69	535.25	361.14	238.39	308.81
Expected volatility	29.84%	23.33%	21.11%	25.49%	33.86%	33.84%
Option life	5	5	2.5	2.5 and 3	2.5	3
Risk-free interest rate	5.500%	6.875%	6.813%	6.833%	6.813%	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	63,900	338.95	89,349	402.44
Granted during the year	27,000	308.81	9,800	238.39
Forfeited during the year	(59,900)	337.47	(35,249)	471.92
Exercised during the year	-	-	-	-
Balance at end of year	**31,000**	**315.56**	**63,900**	**338.95**

Outstanding at the year end

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 31/12/2008	4,000	2008	2011	361.14	261.00
Series 31/12/2010	27,000	2010	2013	308.81	302.68

As at 31 December 2010, there are 31,000 of outstanding options (2009: 63,900 options). In 2010, 59,900 exercisable options were not exercised (2009: 14,500 options). There were no exercised options in 2010 (2009: 0 options).
The weighted average exercise price of outstanding options at the year end is HRK 315.56 (2009: HRK 338.95).
The weighted average remaining validity of options is 1,002 days at 31 December 2010 (2009: 590 days).

NOTE 41– RELATED PARTY TRANSACTIONS

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

	2010	2009
EXPENSES	*(in thousands of HRK)*	
Remuneration to the Management Board members and executives		
Salaries	50,359	55,048
Share options through statement of comprehensive income	(2,957)	3,354
	47,402	**58,402**

NOTE 42 – CONTINGENT LIABILITIES

	2010	2009
	(in thousands of HRK)	
Legal actions	4,338	5,127
Agreed with suppliers of fixed assets not yet realised	6,419	2,595
Guarantees and warranties given outside the Group	14,367	12,914
	25,133	**20,636**

With respect to other legal proceedings and guarantees granted, contingent liabilities have not been recognised in the consolidated statement of financial position as at 31 December, as the Management estimated that as at 31 December 2010 and 2009 no contingent liability will arise for the Group.

NOTE 43 – COMMITMENTS

In 2010, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 6,419 thousand (2009: HRK 2,595 thousand), which are not yet realised or recognised in the consolidated statement of financial position.

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

	2010	2009
	(in thousands of HRK)	
Not later than 1 year	32,614	46,102
Later than 1 year and not later than 5 years	23,193	59,345
Thereafter	-	2,250
	55,807	**107,696**

NOTE 44 – 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 the syndicated loan described in Note 35.

NOTE 45 – APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Miroslav Vitković

President of the Management Board