PODRAVKA d.d., Koprivnica

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

CONTENTS

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

Zvonimir Mršić

Zvonimir Mršić

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 21 March 2012

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

We have audited the accompanying unconsolidated financial statements of Podravka d.d., Koprivnica ('the Company'), which comprise the unconsolidated statement of financial position as at 31 December 2011, and the related unconsolidated statement of comprehensive income, unconsolidated statements of changes in shareholders' equity and unconsolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the accompanying unconsolidated financial statements present fairly, in all material respects, the financial position of the Company as of 31 December 2011, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

We draw attention to the fact that the Company has prepared these unconsolidated financial statements under the Croatian laws and regulations and that the investments in subsidiary and associated undertakings have been presented in these unconsolidated financial statements at cost. In addition, the Company has prepared separate consolidated financial statements for Podravka d.d. and its subsidiaries, dated 21 March 2012. For a better understanding of the Group as a whole, the consolidated financial statements should be read in conjunction with these financial statements.

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor

21 March 2012

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of HRK)	Notes	2011	2010
Sales	5	1,851,955	1,789,333
Cost of goods sold	8	(1,249,830)	(1,176,611)
Gross profit		**602,125**	**612,722**
Investment income	6	44,453	43,613
Other loss, net	7	(47,303)	(51,466)
General and administrative expenses	9	(157,356)	(145,488)
Selling and distribution costs	10	(237,079)	(239,564)
Marketing expenses	11	(132,079)	(125,795)
Other expenses	12	(1,158)	(1,010)
Finance costs	15	(87,908)	(80,930)
(Loss) / profit before tax		**(16,305)**	**12,082**
Income tax	17	6,771	(1,155)
Net (loss) / profit for the year		**(9,534)**	**10,927**
Other comprehensive income		-	-
Total comprehensive (loss) / income for the year		**(9,534)**	**10,927**
(Loss) / earnings per share:	18		
- Basic		(1.82)	2.08
- Diluted		(1.80)	2.07

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

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of HRK)	Notes	31/12/2011	31/12/2010
ASSETS			
Non-current assets			
Intangible assets	20	133,790	169,978
Property, plant and equipment	21	917,812	957,032
Investments in subsidiaries	22	440,551	532,253
Deferred tax assets	17	22,140	15,369
Long term financial assets	23	110,517	166,851
Total non-current assets		**1,624,810**	**1,841,483**
Current assets			
Inventories	24	341,472	323,738
Trade and other receivables	25	644,162	725,583
Financial assets at fair value through profit and loss	26	59	4,792
Cash and cash equivalents	27	69,133	75,365
		1,054,826	1,129,478
Long term assets held for sale	28	71,450	5,102
Total current assets		**1,126,276**	**1,134,580**
Total assets		**2,751,086**	**2,976,063**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	29	1,582,088	1,580,470
Reserves	30	43,278	43,278
Accumulated loss	31	(464,196)	(454,662)
Total equity		**1,161,170**	**1,169,086**
Non-current liabilities			
Long-term borrowings	33	832,374	516,919
Provisions	34	21,526	20,567
Total non-current liabilities		**853,900**	**537,486**
Current liabilities			
Trade and other payables	35	412,940	517,025
Financial liabilities at fair value through profit and loss	32	-	371,100
Short-term borrowings	33	308,060	368,735
Provisions	34	15,016	12,631
Total current liabilities		**736,016**	**1.269.491**
Total liabilities		**1,589,916**	**1,806,977**
Total liabilities and shareholders' equity		**2,751,086**	**2,976,063**

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of HRK)	Notes	Share capital	Reserves	Accumulated loss	Total
Balance at 1 January 2010	29,30,31	**1,582,982**	**42,194**	**(465,589)**	**1,159,587**
Net profit for the year		-	-	10,927	10,927
Fair value of share based payments		(2,512)	-	-	(2,512)
Transfer to other and legal reserves		-	1,084	-	1,084
Balance at 31 December 2010	29,30,31	**1,580,470**	**43,278**	**(454,662)**	**1,169,086**
Net loss for the year				(9,534)	**(9,534)**
Fair value of share based payments		1,618	-	-	1,618
Balance at 31 December 2011		**1,582,088**	**43,278**	**(464,196)**	**1,161,170**

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

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of HRK)	**2011**	**2010**
Net (loss) / profit for the year	**(9,534)**	**10,927**
Tax (income) / expense	(6,771)	1,155
Depreciation and amortisation	89,866	85,772
Loss / (gain) on disposal of non-current assets, net	3,785	(2,220)
Revenue from the sale and leaseback transaction	(2,867)	(2,867)
Value adjustment of current assets	14,242	10,568
Impairment loss on brands	40,275	-
Recognition of SMS brand	(7,800)	-
Loss from value adjustment of investments	2,686	1,653
Loss from value adjustment of asset held for sale	23,645	-
Value adjustment of capital loss / (gain)	1,618	(2,512)
Loss from value adjustment of liabilities at fair value through profit or loss	3,632	34,157
Increase in long-term and short-term provisions	3,344	2,251
Interest income	(21,748)	(25,632)
Interest expense	71,458	72,891
Unrealized (gain) / loss on interest swap contract	(830)	4,137
Value adjustment of receivables for loans	673	-
(Gain) / loss on option related contract	(16,537)	21,008
Effect of changes in foreign exchange rates	17,763	3,586
Other items not affecting cash	(351)	358
Changes in working capital:		
Increase in inventories	(18,935)	(40,251)
(Increase) / decrease in trade receivables	(17,785)	93,548
Decrease in other current assets	12,285	9,371
Increase / (decrease) in trade payables	19,609	(17,327)
Decrease in other liabilities	(95,316)	(132,488)
Net cash generated from operations	**106,407**	**128,085**

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

STATEMENT OF CASH FLOWS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2011

(in thousands of HRK)	**2011**	**2010**
Cash flows from operating activities		
Cash generated from operations	106,407	128,085
Interest paid	(76,840)	(76,826)
Net cash generated from operating activities	**29,567**	**51,259**
Cash flows from investing activities		
Purchase of tangible and intangible assets	(50,276)	(46,131)
Sale of tangible and intangible assets	374	822
Long-term loans and deposits given	-	(298)
Repayment of long-term loans and deposits given	93,536	28,911
Sale of trading securities	3,756	15,876
Short-term loans and deposits given	(13,226)	(7,007)
Repayment of short-term loans and deposits given	49,196	4,000
Loan interest received	21,877	12,380
Net cash generated from investing activities	**105,237**	**8,553**
Cash flows from financing activities		
Proceeds from long-term borrowings	501,311	237,424
Repayment of long-term borrowings	(512,433)	(80,535)
Proceeds from short-term borrowings	20,650	356,678
Repayment of short-term borrowings	(150,564)	(575,596)
Net cash used in financing activities	**(141,036)**	**(62,029)**
Net decrease in cash and cash equivalents	**(6,232)**	**(2,217)**
Cash and cash equivalents at the beginning of year	75,365	77,582
Cash and cash equivalents at the end of year	69,133	75,365

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

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

As at 31 December 2011, the Company's shares were included in the Official Market (First Quotation) listing on the Zagreb Stock Exchange.

Principal activities

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

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

Corporate governance and management

General Assembly

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

President	Hrvoje Matić

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Supervisory Board

Supervisory Board members during 2011:

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

Supervisory Board members during 2010:

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

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Management Board during 2011:

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

Management Board during 2010:

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

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

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

NOTE 2 – ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

2.1. Standards and Interpretations effective in the current period

The following amendments to the existing standards issued by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period:

- **Amendments to IFRS 1** ***First-time Adoption of IFRS***- Limited Exemption from Comparative IFRS 7 *Disclosures* for First-time Adopters (effective for annual periods beginning on or after 1 July 2010),
- **Amendments to IAS 24** ***Related-party Disclosures*** – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 32** ***Financial Instruments: Disclosure*** - **Accounting for rights issues** (effective for annual periods beginning on or after 1 February 2010),
- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** resulting from the Annual Qualitative Improvement of IFRSs, published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (to be applied for annual periods beginning on or after 1 July 2010 or on or after 1 January 2011, depending on the standard/interpretation),
- **Amendments to IFRIC 14 IAS 19 —** ***The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction*** - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011),
- **IFRIC 19** ***Extinguishing Financial Liabilities with Equity Instruments*** (effective for annual periods beginning on or after 1 July 2010)

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

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

2.2. Standards and Interpretations in issue not yet adopted

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

- **IFRS 9** ***Financial Instruments*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 10** ***Consolidated Financial Statements*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 11** ***Joint Arrangements*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 12** ***Disclosures of Involvement with Other Entities*** (effective for annual periods beginning on or after 1 January 2013),
- **IFRS 13** ***Fair Value Measurement*** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 27 (Revised in 2011)** ***Separate Financial Statements*** (effective for annual periods beginning on or after 1 January 2013),
- **IAS 28 (Revised in 2011)** ***Investments in Associates and Joint Ventures*** (effective for annual periods beginning on or after 1 January 2013)
- **Amendments to IFRS 1** ***First-time Adoption of IFRS*** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IFRS 7** ***Financial Instruments: Disclosures*** - Transfers of Financial Assets (effective for annual periods beginning on or after 1 July 2011),
- **Amendments to IAS 1** ***Presentation of Financial Statements*** - Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012),

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

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

- **Amendments to IAS 12 *Income Taxes*** - Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2011),
- **Amendments to IAS 19 *Employee Benefits*** - Improvements to the Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013),
- **IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*** (effective for annual periods beginning on or after 1 January 2013).

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

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

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

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

The Company has issued these non-consolidated financial statements in accordance with Croatian regulations. The Company has also prepared consolidated financial statements as at 31 December 2011 and for the year then ended, in accordance with IFRS for the Company and its subsidiaries (the Group), which were approved by the Management Board on 21 March 2012. In the consolidated financial statements, subsidiary undertakings (listed in Note 22) – which are those companies in which the Company, directly or indirectly, has an interest of more than half of the voting rights or otherwise has power to exercise control over the operations - have been fully consolidated. Users of these non-consolidated financial statements should read them together with the Group's consolidated financial statements as at and for the year ended 31 December 2011 in order to obtain full information on the financial position, results of operations and changes in financial position of the Group as a whole.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. Formal investigation

In January 2011, formal investigation by various authorities of the Republic of Croatia regarding the various business and financial transactions that individual members of the former Management Board carried out beyond the provision of the Company's Statute and Management Board decisions during their mandate have been completed.Management of the Company has examined the risks that may arise from financial and business transactions that were the subject of these investigations, and appropriately reflected such risks in the unconsolidated financial statements and reports of Podravka d.d. for the year ended 31 December 2010.

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

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

3.4. Investments in subsidiaries

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

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

3.5. Non-current assets held for sale

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Revenue recognition

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

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

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

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

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

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

(b) Sales – retail products and goods

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

(c) Service sales

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

(d) Interest income

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

(e) Dividend income

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Leases

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

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

Sale and leaseback transactions

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Foreign currencies

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

As at 31 December 2011, the official exchange rate for EUR 1 and USD 1 was HRK 7.5304 and HRK 5.8199 (31 December 2010: HRK 7.3852 and HRK 5.5683, respectively).

3.9. Borrowing costs

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

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

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

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

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

3.10. Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 38.

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.10. Share-based payments (continued)

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

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

3.11. Dividends

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

3.12. Operating segment reporting

The Company identifies operating segments on the basis of internal reports about components of the Company that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Details of operating segments are disclosed in Note 5 to the financial statements.

3.13. Taxation

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

Current taxes

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

Deferred tax

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.13. Taxation (continued)

Deferred tax (continued)

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

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

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

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

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

Current and deferred tax for the period

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

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

Value added tax

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Property, plant and equipment

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

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

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

	2011	2010
Buildings	10 do 50 years	10 to 50 years
Equipment	3 do 18 years	3 to 18 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.16).

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

3.15. 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 loss (Note 3.16).

Computer software

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.16. Impairment of tangible and intangible assets

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

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

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

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

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

3.17. Inventories

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

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

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

Small inventory and tools are expensed when put into use.

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Trade receivables

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

3.19. Cash and cash equivalents

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

3.20. Share capital

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

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

3.21. Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.21. Employee benefits (continued)

(c) Regular termination benefits

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

(d) Long-term employee benefits

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

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

(e) Short-term employee benefits

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

(f) Share-based compensation

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.22. Provisions

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

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

3.23. Financial assets

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

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

Effective interest method

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

A financial asset is classified as held for trading if:

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

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

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

Held-to-maturity investments

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

Available-for-sale financial assets (AFS)

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

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

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

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

Loans and receivables

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

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

Impairment of financial assets

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

Impairment of financial assets (continued)

For all other financial assets, objective evidence of impairment could include:

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

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

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

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

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

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Financial assets (continued)

Derecognition of financial assets

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

3.24. Financial liabilities and equity instruments issued by the Company

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

A financial liability is classified as held for trading if:

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

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

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

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

Other financial liabilities

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

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

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

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Derecognition of financial liabilities

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

Contracts on financial guarantee

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

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

3.25. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

The Company reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During 2011, the directors determined that the useful life of certain items of property, plant and equipment exceeded the original estimates, resulting in a decreased depreciation charge of HRK 4 thousand.
During 2010, the directors determined that the useful life of certain items of property, plant and equipment exceeded the original estimates, resulting in a decreased depreciation charge of HRK 405 thousand.

Impairment of non-current assets

The impairment calculation requires the estimate of the value in use of the cash generating units. Value in use is measured using the discounted cash flow projections. The most significant variables in determining cash flows are discount rates, terminal values, the period of cash flow projections, as well as assumptions and judgements used in determining cash receipts and expenditure. Based on the calculation of the net present value of future cash flows in 2011, impairment was recognized in the amount of HRK 40,275 thousands (no impairment of intangible assets was recognised in 2010) (Note 20). In addition, the Company recognised in 2011 the SMS brand at the estimated amount of HRK 7,800 thousand.

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

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

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

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy. During 2011 and 2010, deferred tax assets in respect of available tax differences were recognised.

Actuarial estimates used in determining the retirement bonuses

The cost of defined benefits is determined using actuarial estimates. Actuarial estimates involve assumptions about discount rates, future salary increases and the mortality or fluctuation rates. Because of the long-term nature of those plans, there is uncertainty surrounding those estimates. At 31 December 2011, provisions for jubilee awards amounted to HRK 7,351 thousand (2010: HRK 8,074 thousand), retirement HRK 7,888 thousand (2010: HRK 7,227 thousand) (see notes 34 and 36).

Consequences of certain legal actions

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

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

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

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

NOTE 5 – SEGMENT INFORMATION

Sales

	2011	2010
	(in thousands of HRK)	
Income from sale of goods and services		
- external	1,207,200	1,231,203
- group	570,070	495,356
	1,777,270	**1,726,559**
Income from service		
- external	13,129	10,720
- group	61,556	52,054
	74,685	**62,774**
	1,851,955	**1,789,333**

Operating segments are determined based on the relation between individual product groups. There are three segments recognized by the Company:
Culinary, Food and Beverages and other.
Business segments are an integral part of internal financial statements. Internal financial statements are being regularly reviewed by Company's management and evaluates based on them business performance and brings management decisions (Note 3.12)

Segment revenues and results

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

	Segment revenue		**Segment profit**	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Culinary	846,797	809,942	146,780	143,096
Food	662,358	636,592	21,593	35,048
Beverages and other	342,800	342,799	1,272	6,587
	1,851,955	**1,789,333**	**169,645**	**184,731**
Investment revenue			44,453	43,613
Other loss, net (Note 7)			(47,303)	(51,466)
Central administration costs			(89,834)	(80,489)
Other expenses			(5,358)	(3,377)
Finance costs			(87,908)	(80,930)
(Loss) / profit before tax			**(16,305)**	**12,082**

NOTE 5 – SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

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

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

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

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

Segment assets and liabilities

	31/12/2011	31/12/2010
	(in thousands of HRK)	
Segment assets		
Culinary	960,094	1,005,913
Food	782,407	809,627
Beverages and other	435,377	446,050
Total segment assets	**2,177,878**	**2,261,590**
Unallocated	573,208	714,473
Total assets	**2,751,086**	**2,976,063**

	31/12/2011	31/12/2010
	(in thousands of HRK)	
Segment liabilities		
Culinary	642,067	690,973
Food	523,237	556,142
Beverages and other	291,161	306,398
Total segment liabilities	**1,456,465**	**1,553,513**
Unallocated	133,451	253,464
Total liabilities	**1,589,916**	**1,806,977**

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

Other segment information

	Depreciation and amortisation		Additions to non-current assets	
(in thousands of HRK)	**2011**	**2010**	**2011**	**2010**
Culinary	38,151	36,082	25,346	29,608
Food	32,463	30,288	23,583	10,402
Beverages and other	19,252	19,402	11,048	9,496
Total	**89,866**	**85,772**	**59,977**	**49,506**

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

(in thousands of HRK)	**31/12/2011**
Culinary	(25,700)
Beverages and other	(14,575)
Total brand impairment loss	**(40,275)**
Recognition of SMS brand	7,800
Net impairment loss on brands	**(32,475)**

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

Geographical information

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

	Revenue from external customers	
	2011	**2010**
	(in thousands of HRK)	
Croatia	1,115,355	1,100,980
South-East Europe	415,456	377,272
Central and Eastern Europe	133,471	123,046
Western Europe and overseas countries	187,673	188,035
Total	**1,851,955**	**1,789,333**

Information about major customers

Revenue from external sales account for 66 % of the total revenue (2010: 69%), whereas the remaining portion represents intra-group sales. Top 20 customers account for 65 % of the external sales (2010: 61%).

NOTE 6 – INVESTMENT REVENUE

	2011	2010
	(in thousands of HRK)	
Dividends received	19,838	15,114
Interest on loans and receivables – Group entities	15,340	18,772
Interest on deposits and from receivables	6,408	6,860
Revenue from the sale and leaseback transaction	2,867	2,867
Interest on term-deposits and trade debtors	5	14
Impairment allowance on interest on loans and receivables	(5)	(14)
	44,453	**43,613**

Investment revenue analysed by asset category:

	2011	2010
	(in thousands of HRK)	
Equity investments in subsidiaries	19,838	15,114
Other financial assets	18,207	21,639
Trade and other receivables	6,408	6,860
	44,453	**43,613**

NOTE 7 – OTHER LOSS, NET

	2011	2010
	(in thousands of HRK)	
Impairment loss on brands	(40,275)	-
Loss on value adjustment of asset held for sale	(23,645)	-
(Loss) / gain on disposal of non-current assets, net	(3,785)	2,220
Loss from value adjustment of liabilities at fair value through profit or loss	(3,632)	(34,157)
Loss on value adjustment of investments, net	(2,686)	(1,653)
Grant income (subsidies)	765	553
Recognition of SMS brand	7,800	-
(Gain) / loss on option related contract	16,537	(21,008)
	(48,921)	**(54,045)**
Foreign exchange gains, net	1,618	2,579
	(47,303)	**(51,466)**

NOTE 7 – OTHER LOSS, NET (continued)

Impairment loss on brands in the amount of HRK 40,275 thousand (2010: nil) relate to the impairment of the Warzywko brand (HRK 25,700 thousand) and the Lero brand (HRK 14,575 thousand) were recognised on the basis of the impairment test results (Note 20).

Impairment loss on assets held for sale in the amount of HRK 23,645 thousand comprise the impairment of the investment in Lero d.o.o. in the amount of HRK 21,528 thousand and the impairment of the property at the address Ante Starčevića 29 in the amount of HRK 2,117 thousand (Note 28).

In 2011, the Company recognised the SMS brand at the amount of HRK 7,800 thousand, in accordance with the underlying decision of the Management Board and based on the calculated fair value of intangible assets.
By Decision of the State Intellectual Property Office ("the SIPO") of 27 October 2009, Podravka d.d. was entered into the Register of the SIPO as the owner of the SMS trademark (brand). The valuation of the SMS brand was performed during 2011 when the value of the brand could be determined reliably and when it became probable that future economic benefits from the asset will flow into the Company.

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

NOTE 8 – COST OF GOODS SOLD

	2011	2010
	(in thousands of HRK)	
Raw material and supplies	545,242	480,869
Cost of goods sold	386,140	385,719
Staff costs	186,567	184,159
Depreciation	61,896	62,388
Energy	49,907	48,019
Packaging disposal fee	7,007	4,931
Filling services and contract manufacturing	4,373	506
Maintenance	2,187	8,716
Other costs (transport, rental, professional training, accrued expenses, etc.)	6,511	1,304
	1,249,830	**1,176,611**

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

	2011	2010
	(in thousands of HRK)	
Staff costs	91,143	83,447
Depreciation	20,338	17,271
Services (maintenance, communal services, graphic services, and similar)	18,286	13,254
Bank charges	7,942	6,968
Rental costs	3,986	4,180
Taxes and contributions independent of operating results	3,915	4,567
Telecommunications	3,381	3,230
Other materials and energy	3,185	2,519
Consultancy services	2,165	1,660
Entertainment	1,719	1,440
Other expenses (per diems, professional training and literature, Supervisory Board fees, and similar)	1,296	6,952
	157,356	**145,488**

NOTE 10 – SELLING AND DISTRIBUTION EXPENSES

	2011	2010
	(in thousands of HRK)	
Staff costs	118,397	122,355
Rental costs	29,965	31,877
Transportation	15,944	16,990
Energy	14,915	14,130
Net provisions for trade receivables	13,041	6,231
Other services (single service agreements, distribution services, professional services, student service)	9,746	11,168
Depreciation	7,259	5,540
Maintenance	6,157	5,635
Per diems and other business travel expenses	3,980	4,472
Entertaiment	2,325	2,652
Telecommunications	2,034	2,142
Taxes and contributions independent of operating results	1,296	1,552
Professional literature, administrative fees and duties	1,058	1,809
Insurance premium	1,018	1,731
Other expenses (education, entertainment, etc.)	9,944	11,280
	237,079	**239,564**

NOTE 11 – MARKETING EXPENSES

	2011	2010
	(in thousands of HRK)	
Retail trader and consumer marketing	47,842	50,586
Media investments	28,808	29,518
Staff costs	22,084	21,541
Institutional advertising and promotion	15,345	10,336
Services (maintenance, graphic services, engraving services, etc.)	5,173	5,316
Market research	1,750	2,305
Per diams and travel	1,105	1,115
Leases	887	1,095
Other expenses (entertainment, telecommunication, small inventory, etc.)	9,085	3,983
	132,079	**125,795**

NOTE 12 – OTHER EXPENSES

	2011	2010
	(in thousands of HRK)	
Interest expense on trade creditors	773	(315)
Write-off of intra-group loans	385	1,325
	1,158	**1,010**

NOTE 13 – EXPENSES BY NATURE

	2011	2010
	(in thousands of HRK)	
Raw material, supplies and energy	646,588	573,734
Staff costs	418,191	411,502
Cost of goods sold	368,101	368,724
Advertising and promotion	93,745	92,745
Depreciation	89,866	85,772
Services (maintenance, distribution, consultancy, freight forwarding, and similar service costs)	60,366	58,133
Rental costs	39,626	40,679
Transport	17,938	18,756
Provisions for trade and other receivables	13,826	7,545
Taxes and contributions independent of operating results	10,991	12,831
Bank charges	7,941	6,968
Per diems and other business travel expenses	7,305	7,180
Packaging waste disposal fee	7,007	4,931
Telecommunications	6,850	6,609
Entertainment	4,696	4,675
Changes in value of inventory	(24,238)	(19,379)
Other expenses (insurance premium, design services, professional training and literature, administrative duties, court costs)	7,545	6,053
	1,776,344	**1,687,458**

NOTE 14 – STAFF COSTS

	2011	2010
	(in thousands of HRK)	
Salaries	392,033	391,733
Transportation	6,317	6,317
Termination benefits	4,208	2,484
Provisions for annual vacations, termination benefits and jubilee awards	3,985	2,328
Share options	1,618	(2,512)
Other employee benefits	10,030	11,152
	418,191	**411,502**

As at 31 December 2011, the number of staff employed by the Company was 3,568 (2010: 3,634).

In 2011, the Company accrued and paid retirement incentives for 41 employees in the amount of HRK 4,212 thousand, of which HRK 4,208 thousand being non-taxable and HRK 4 thousand taxable (2010: HRK 3,615 thousand for 35 employees, of which HRK 2,484 thousand being non-taxable and HRK 1,131 thousand taxable and reported as salary expense).

NOTE 15 – FINANCE COSTS

	2011	2010
	(in thousands of HRK)	
Interest expense on long-term borrowings	56,509	18,154
Interest expense on issued bonds	7,369	19,202
Interest expense on short-term borrowings	5,672	24,900
Interest expense on commercial papers	1,135	10,951
Unrealized (gain) / loss on swap contracts	(830)	4,137
Other	290	-
	70,145	**77,344**
Net foreign exchange loss on borrowings	17,763	3,586
	87,908	**80,930**

Interest expense on long-term borrowings significantly rose in 2011, whereas interest expense on other sources of financing decreased as a result of a syndicated long-term loan in the amount of EUR 100,000 thousand, a part of which (EUR 32,155 thousand) was utilized at the end of 2010 to repay short-term borrowings, while the remaining portion (EUR 67,845 thousand) was utilised in 2011 to redeem commercial papers and bonds (Note 33), the former on 4 February 2011 and the latter on 13 May 2011.

During 2011 and 2010, the Company had no investments on which interest expense would be capitalised.
On 27 May 2009 the Company has entered into a contract on Interest Rate Swap (IRS) through which was set up variable interest rate (3M EURIBOR) on the level of 2.46%. Agreement on the IRS refers to the long-term debt of the Company at Erste Bank Group in Vienna the amount of EUR 40,000 thousand by the Company contracted 9 October 2008. Agreement on the IRS was concluded for the period 9 July 2009 to 9 October 2014.

NOTE 16 – NET FOREIGN EXCHANGE (LOSS)/GAINS

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

	2011	2010
	(in thousands of HRK)	
Finance costs	(17,763)	(3,586)
Other gains, net	1,618	2,579
	(16,145)	**(1,007)**

NOTE 17 – INCOME TAX

Tax (income) / expense consists of:

	2011	2010
	(in thousands of HRK)	
Current income tax	-	-
Deferred tax, net	(6,771)	1,155
	(6,771)	**1,155**

The tax on the Company's profit before tax differs from the notional amount that would arise using the tax rate of 20% (2010: 20%) applicable to the Company's profit as follows:

	2011	2010
	(in thousands of HRK)	
(Loss) / profit before taxation	(16,305)	12,082
Tax calculated at weighted average tax rates applicable to the Company's profits	-	2,416
Effect of tax non-deductible expenses	7,210	4,994
Effect of tax benefits (research and development, education and other allowances)	(83)	(55)
Effect of tax loss used	(7,127)	(7,355)
Tax (income)/loss recognised in the statement of comprehensive income	**(6,771)**	**1.155**

Deferred tax assets recognised in the statement of financial position as follows	2011	2010
	(in thousands of HRK)	
Deferred tax assets	22,140	15,369

NOTE 17 – INCOME TAX (continued)

Unused tax loss:	**2011**	**2010**
	(in thousands of HRK)	
Unused tax loss	79,974	114,607

The availability of unused tax loss expires as follows:

2011	-	21,344
2012	13,772	27,061
2013	66,202	66,202

In accordance with Croatian tax regulations, by the end of 2011, the Company realised tax loss in the amount of HRK 79,974 thousand (2010: HRK 114,607 thousand), which may be utilised up to 2013 at the latest. Unused tax loss have not been recognised as deferred tax assets in the statement of financial position, as it is uncertain that sufficient taxable profit will be realised against which these deferred tax assets may be utilised.

Deferred tax assets arise from the following:

2011	**Opening balance**	**Through statement of the comprehensive income**	**Closing balance**
		(in thousands of HRK)	
Intangible assets – brand	7,854	8,055	15,909
Provisions for jubilee awards	1,615	(145)	1,470
Value adjustment of inventories	2,222	240	2,462
Financial assets	2,233	(1,935)	298
Provision for termination benefits	1,445	133	1,578
Value adjustment of asset held for sale	-	423	423
	15,369	**6,771**	**22,140**

NOTE 17 – INCOME TAX (continued)

2010	Opening balance	Through statement of the comprehensive income	Closing balance
		(in thousands of HRK)	
Intangible assets – brands	7,854	-	7,854
Provisions for jubilee awards	1,878	(263)	1,615
Value adjustment of inventories	1,882	340	2,222
Financial assets at fair value through profit or loss	1,754	479	2,233
Vacation accrual	2,028	(2,028)	-
Provision for termination benefits	1,128	317	1,445
	16,524	**(1,155)**	**15,369**

Unrecognised deferred tax assets

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

	2011	2010
	(in thousands of HRK)	
Tax loss	15,995	22,950
	15,995	**22,950**

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

NOTE 18 – (LOSS) / EARNINGS PER SHARE

Basic (loss) / earnings per share

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

	2011	2010
Net (loss)/profit to equity holders (in thousands of HRK)	(9,534)	10,927
Weighted average number of shares	5,242,492	5,242,492
Basic (loss)/earnings per share (in HRK and lipa)	**(1.82)**	**2.08**

Diluted (loss) / earnings per share

Diluted (loss)/earnings per share were calculated as the basic (loss)/earnings per share, including the impact of the number of share options granted to employees, of which 40,000 were not exercised (2010: 24,000 options):

	2011	2010
Net (loss)/profit attributable to equity holders (in thousands of HRK)	(9,534)	10,927
Adjustment for share options	40,000	24,000
Weighted average number of shares in issue for diluted earnings per share	5,282,492	5,266,492
Diluted (loss)/earnings per share (in HRK and lipa)	**(1.80)**	**2.07**

NOTE 19 – DIVIDENDS PER SHARE

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

NOTE 20 – INTANGIBLE ASSETS

	2011	2010
	(in thousands of HRK)	
Cost	336,105	322,043
Accumulated amortisation	(202,315)	(152,065)
	133,790	**169,978**

NOTE 20 – INTANGIBLE ASSETS (continued)

(in thousands of HRK)	**Software**	**Distribution rights**	**Brand**	**Investments in progress**	**Total**
Cost					
At 1 January 2010	117,878	12,000	169,199	14,687	313,764
Additions	-	-	-	8,279	8,279
Disposals	20,630	-	40	(20,670)	-
At 31 December 2010	**138,508**	**12,000**	**169,239**	**2,296**	**322,043**
Accumulated amortisation					
At 1 January 2010	(92,766)	(12,000)	(39,270)	-	(144,036)
Charge for the year	(8,029)	-	-	-	(8,029)
At 31 December 2010	**(100,795)**	**(12,000)**	**(39,270)**	**-**	**(152,065)**
Carrying amount at 31 December 2010	**37,713**	**-**	**129,969**	**2,296**	**169,978**
Cost					
At 1 January 2011	**138,508**	**12,000**	**169,239**	**2,296**	**322,043**
Additions	-	-	7,800	7,354	15,154
Transfers	4,638	-	-	(4,638)	-
Disposals	(1,092)	-	-	-	(1,092)
At 31 December 2011	**142,054**	**12,000**	**177,039**	**5,012**	**336,105**
Accumulated amortisation					
At 1 January 2011	**(100,795)**	**(12,000)**	**(39,270)**	**-**	**(152,065)**
Charge for the year	(11,067)	-	-	-	(11,067)
Eliminated on disposal	1,092	-	-	-	1,092
Impairment loss recognized during the year	-	-	(40,275)	-	(40,275)
At 31 December 2011	**(110,770)**	**(12,000)**	**(79,545)**	**-**	**(202,315)**
Carrying amount at 31 December 2011	**31,284**	**-**	**97,494**	**5,012**	**133,790**

NOTE 20 – INTANGIBLE ASSETS (continued)

	2011	2010
	(in thousands of HRK)	
Brand	97,494	129,969
Software	31,284	37,713
Investments in progress	5,012	2,296
	133,790	**169,978**

At the end of the reporting period the Company reassessed the recoverable amount of the brands and identified that the brands were impaired by HRK 40,275 thousand (of which HRK 25,700 thousand in respect of the Warzywko brand and HRK 14,575 thousand in respect of the Lero brand). In addition, the SMS brand was recognised in the amount of HRK 7,800 thousand (no impariment of intangible assets was recognised in 2010). The recoverable amount of the cash generating unit was estimated using the discounted cash flow method.

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

NOTE 21 – PROPERTY, PLANT AND EQUIPMENT

	2011	2010
	(in thousands of HRK)	
Land and buildings	629,072	658,472
Fittings and equipment	246,998	254,730
Assets under construction	41,742	43,830
	917,812	**957,032**

NOTE 21 – PROPERTY, PLANT AND EQUIPMENT (continued)

(in thousands of HRK)	Land and buildings	Equipment and fittings	Assets under construction	Total
Cost				
At 1 January 2010	1,229,926	935,908	86,384	2,252,218
Additions	3,357	5,331	36,544	45,232
Transfers	40,602	32,692	(73,294)	-
Disposals	(2,510)	(9,915)	(702)	(13,127)
Reclassification	-	-	(5,102)	(5,102)
At 31 December 2010	**1,271,375**	**964,016**	**43,830**	**2,279,221**
Accumulated depreciation				
At 1 January 2010	(576,258)	(675,333)	-	(1,251,591)
Additions – reused assets	-	(4,004)	-	(4,004)
Charge for the year	(38,060)	(39,683)	-	(77,743)
Eliminated on disposal	1,415	9,734	-	11,149
At 31 December 2010	**(612,903)**	**(709,286)**	**-**	**(1,322,189)**
Carrying amount at 31 December 2010	**658,472**	**254,730**	**43,830**	**957,032**
Cost				
At 1 January 2011	1,271,375	964,016	43,830	2,279,221
Additions	970	1,708	43,507	46,185
Transfers	8,439	33,446	(41,885)	-
Disposals	(6,828)	(7,650)	(3,710)	(18,188)
At 31 December 2011	**1,273,956**	**991,520**	**41,742**	**2,307,218**
Accumulated depreciation				
At 1 January 2011	(612,903)	(709,286)	-	(1,322,189)
Additions – reused assets	-	(1,362)	-	(1,362)
Charge for the year	(37,500)	(41,299)	-	(78,799)
Eliminated on disposal	5,519	7,425	-	12,944
At 31 December 2011	**(644,884)**	**(744,522)**	**-**	**(1,389,406)**
Carrying amount at 31 December 2011	**629,072**	**246,998**	**41,742**	**917,812**

Land and buildings of net book value of HRK 476,947 thousand (2010: HRK 490,987 thousand) have been mortgaged against the Company's borrowings.

NOTE 21 – PROPERTY, PLANT AND EQUIPMENT (continued)

	2011	2010
	(in thousands of HRK)	
Cost of capitalised finance leases	62,722	65,286
Accumulated depreciation	(19,314)	(15,339)
Net book value	**43,408**	**49,947**

NOTE 22 – INVESTMENTS IN SUBSIDIARIES

Name of subsidiary	Country of incorporation	Ownership interest in %		Equity share in thousands of HRK		Principal activity
		2011	2010	2011	2010	
Belupo d.d., Koprivnica	Croatia	100,00	100.00	157,830	157,830	Production and distribution of pharmaceuticals
Danica d.o.o., Koprivnica	Croatia	100,00	100.00	102,216	102,216	Meet processing and production
Lero d.o.o., Rijeka	Croatia	100,00	100.00	-	89,993	Fruit and vegetable juice and beverage production
Ital-Ice d.o.o., Poreč	Croatia	100,00	100.00	47,425	47,425	Ice-cream
KOTI Nekretnine d.o.o., Koprivnica	Croatia	100,00	100.00	3,328	3,328	Services
Podravsko ugostiteljstvo d.o.o., Koprivnica	Croatia	100,00	100.00	20	20	Purchase and sale of goods; meal preparation and catering services
Podravka Inženjering d.o.o., Koprivnica	Croatia	100,00	100.00	20	20	Services
Poni trgovina d.o.o., Koprivnica	Croatia	100,00	100.00	20	20	Prodaja robe
Lagris a.s., Lhota u Luhačovic	Czech Republic	100,00	100.00	68,754	68,754	Rice production and sale
Podravka-Polska Sp.z o.o., Kostrzyn	Poland	100,00	100.00	49,717	49,717	Seasonings manufacture and sale
Podravka-International Kft, Budapest	Hungary	100,00	100.00	5,343	5,343	Sale and distribution
Podravka d.o.o., Ljubljana	Slovenia	100,00	100.00	1,925	1,925	Sale and distribution
Podravka d.o.o., Beograd	Serbia	100,00	100.00	-	1,148	Sale and distribution
Podravka-Int. Deutschland –"Konar"	Germany	100,00	100.00	1,068	1,068	Sale and distribution
Podravka-International s.r.o., Zvolen	Slovakia	75,00	75.00	1,034	1,034	Sale and distribution
Podravka d.o.o., Podgorica	Montenegro	100,00	100.00	1,029	1,029	Sale and distribution
Podravka International, Turkey	Turkey	75,00	75.00	-	561	Sale and distribution
Podravka-International Pty Ltd, Sydney	Australia	98,88	98.88	426	426	Sale and distribution
Sana d.o.o., Hoče	Slovenia	100,00	100.00	217	217	Wafers
Podravka-International s.r.l., Bucharest	Romania	100,00	100.00	84	84	Sale and distribution
Podravka d.o.o., Skopje	Macedonia	100,00	100.00	42	42	Sale and distribution
Podravka d.o.o., Sarajevo	B&H	100,00	100.00	40	40	Sale and distribution
Podravka-International e.o.o.d., Sofia	Bulgaria	100,00	100.00	10	10	Sale and distribution
Podravka-International Inc. Wilmington	USA	100,00	100.00	3	3	Sale and distribution
				440,551	**532,253**	

NOTE 22 – INVESTMENTS IN SUBSIDIARIES (continued)

In 2011, the Company recognised an impairment loss of HRK 1,148 thousand on its investment in Podravka d.o.o. Belgrade, as well as an impairment loss of HRK 561 thousand on its investment in Podravka International Turkey, resulting from the negative net asset value of those companies, as determined on the basis of their reported current period and accumulated loss.

In 2011 the investment in Lero d.o.o. was reclassified to assets held for sale, as, based under the related decision of the Management Board of Podravka d.d., the production at Lero d.o.o. was discontinued during the year with the intention to sell the assets of Lero d.d. in the near future (Note 28).

NOTE 23 – LONG TERM FINANCIAL ASSETS

	2011	2010
	(in thousands of HRK)	
Loans to related companies	107,689	161,533
Loans to third parties	3,649	4,141
Impairment loss on loans to third parties	(2,500)	(2,500)
Deposits and other	1,679	3,677
	110,517	**166,851**

Loans to related parties relates to long-term portion of loans the company Belupo in the amount of HRK 107,689 thousand (2010: HRK 161,533 thousand), Note 39.

NOTE 24 – INVENTORIES

	2011	2010
	(in thousands of HRK)	
Raw materials and supplies	112,909	111,322
Work in progress	35,584	26,516
Finished goods	134,135	119,539
Trade goods	58,844	66,361
	341,472	**323,738**

In 2010, Podravka has recorded inventory impairment in the amount of HRK 1,201 thousand (2010: HRK 1,698 thousand was credited). This expense in included in the statement of comprehensive income in line item 'Cost of goods sold'

NOTE 25 – TRADE AND OTHER RECEIVABLES

	2011	2010
	(in thousands of HRK)	
Current receivables		
Trade receivables	282,421	294,934
Less: Provisions for impairment	(61,461)	(59,451)
Net trade receivables	**220,960**	**235,483**
Intragroup trade receivables	305,356	286,089
Intragroup loans given	66,066	59,283
Loans given	61,197	61,487
Impairment allowance on loans given	(61,197)	(61,197)
Bills of exchange received	7,400	23,713
Advances to suppliers	31	328
Restricted deposit	-	45,788
Other receivables	44,349	74,609
	644,162	**725,583**

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

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

Loans given to related parties includes current portion of the long term loan granted to: Belupo d.d. in the amount of HRK 53,844 thousand (2010: HRK 53,844) and short term loan granted to Danica d.o.o. in the HRK 8,250 thousand (2010: HRK 2,000 thousand), Lero d.o.o. in amount of HRK 1,609 thousands, Podravka International Turkey in the amount of HRK 1,781 thousand andPodravka-International Inc. Wilmington in amunt of HRK 582 thousand (Note 39).

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

	2011	2010
	(in thousands of HRK)	
At 1 January	59,451	60,516
Increase	3,999	6,017
Amounts collected	(778)	(1,314)
Written off as uncollectible	(1,211)	(5,768)
At 31 December	**61,461**	**59,451**

In 2011, the expense of the provision for trade receivables, i.e. the income from the collection of trade receivables previously provided for is included in 'Selling and distribution costs'.
The provision for the impairment of intragroup receivables for the year 2011 amounted to HRK 9,820 thousand (2010: HRK 1,527 thousand) and is captured under "Selling and distribution costs".
The Company derecognises irrecoverable receivables from intragroup customers, as it writes them off in full.

NOTE 25 – TRADE AND OTHER RECEIVABLES (continued)

Ageing analysis of trade receivables past due but not impaired:

	2011	2010
	(in thousands of HRK)	
Up to 90 days	122,057	128,344
91-180 days	49,232	56,847
181-360 days	28,819	26,183
	200,108	**211,374**

Other receivables at 31 December were as follows:

	2011	2010
	(in thousands of HRK)	
Loans and interests receivable from related companies	18,949	52,876
Prepaid expenses	13,062	11,003
Net VAT receivable	9,110	5,982
Receivables from employees	1,750	1,524
Other receivables – gross	1,478	2,784
Other financial receivables under forced collection proceedings	57,200	65,000
Impairment allowance on other financial receivables under forced collection proceedings	(57,200)	(65,000)
Other financial receivables in respect of guarantees paid	30,556	30,556
Impairment allowance on other financial receivables in respect of guarantees paid	(30,556)	(30,556)
Interest receivable on domestic loans	10,715	10,715
Impairment allowance on domestic loan interest receivable	(10,715)	(10,715)
Past due long-term loan receivables	1,250	1,381
Impairment allowance on past due long-term loan receivables	(1,250)	(1,381)
Profit distributions from related entities	-	1,477
Impairment allowance for other receivables	-	(1,037)
	44,349	**74,609**

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

	2011	2010
	(in thousands of HRK)	
Investments in:		
Investment funds	59	4,792
	59	**4,792**

Movements during the year are as follows:

	2011	2010
	(in thousands of HRK)	
Opening net book value	4,792	22,321
Disposals	(3,756)	(15,876)
Effect of remeasurement at fair value	(977)	(1,653)
Closing net book value	**59**	**4,792**

NOTE 27 – CASH AND CASH EQUIVALENTS

	2011	2010
	(in thousands of HRK)	
Cash with banks	69,055	75,296
Cash in hand	77	67
Cheques received	1	2
	69,133	**75,365**

NOTE 28– LONG TERM ASSETS HELD FOR SALE

	2011	2010
	(in thousands of HRK)	
Investment in Lero d.o.o.	68,465	-
Property at A. Starčevića 29	1,033	3,150
Property at Trg bana J. Jelačića 16	1,952	1,952
	71,450	**5,102**

In 2011 the investment in Lero d.o.o. was reclassified to non-current assets held for sale, upon which an impairment loss of HRK 21,528 thousand was recognised to the extent of the impairment of net assets of Lero d.o.o. mainly caused by impairment of property identified on the basis of an independent appraisal (Note 22).

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

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

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

NOTE 29 – SHARE CAPITAL

	2011	2010
	(in thousands of HRK)	
Ordinary shares	1,626,001	1,626,001
Capital gains	23,691	22,073
Own shares	(67,604)	(67,604)
	1,582,088	**1,580,470**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)		*(in thousands of HRK)*		
At 1 January 2010	5,242,492	1,626,001	24,585	(67,604)	1,582,982
Employee share options:					
- fair value of options	-	-	(2,512)	-	(2,512)
At 31 December 2010	**5,242,492**	**1,626,001**	**22,073**	**(67,604)**	**1,580,470**
At 1 January 2011	5,242,492	1,626,001	22,073	(67,604)	1,580,470
Employee share options:					
- fair value of options	-	-	1,618	-	1,618
At 31 December 2011	**5,242,492**	**1,626,001**	**23,691**	**(67,604)**	**1,582,088**

As at 31 December 2011, the Company's share capital amounted to HRK 1,626,001 thousand, distributed among 5,420,003 shares (2010: HRK 1,626,001 thousand and 5,420,003 shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid in.

The Employee Share Option Plan is described in detail in Note 38 to the financial statements.

NOTE 30 – RESERVES

	2011	2010
	(in thousands of HRK)	
Legal reserves	6,849	6,849
Other reserves	1,084	1,084
Reserves for treasury shares	35,345	35,345
	43,278	**43,278**

(in thousands of HRK)	**Legal reserves**	**Other reserves**	**Reserves for treasury shares**	**Total**
At 1 January 2010	6,849	-	35,345	42,194
Transfer to reserves	-	1,084	-	1,084
At 31 December 2010	**6,849**	**1,084**	**35,345**	**43,278**
At 1 January 2011	6,849	1,084	35,345	43,278
At 31 December 2011	**6,849**	**1,084**	**35,345**	**43,278**

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

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

NOTE 31 – ACCUMULATED LOSS

	2011	2010
	(in thousands of HRK)	
Accumulated loss	(464,196)	(454,662)

	2011	2010
	(in thousands of HRK)	
At 1 January	(454,662)	(465,589)
- Net (loss) / profit for the year	(9,534)	10,927
At 31 December	**(464,196)**	**(454,662)**

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

	2011	2010
	(in thousands of HRK)	
Issued bonds	-	371,100
	-	**371,100**

On 17 May 2006, the Company issued bonds in the nominal amount of HRK 375,000 thousand, at an interest rate of 5.125 %, which mature on 17 May 2011. At 31 December 2010, the liabilities for bonds issued are shown within short-term liabilities. The bonds were fully redeemed on 13 May 2011. The effective interest rates on the reporting dates were as follows:

	2011	2010
	HRK	**HRK**
	%	**%**
Izdane obveznice	-	5.32

NOTE 33 – BORROWINGS

	2011	2010
	(in thousands of HRK)	
Non-current borrowings		
Banks in Croatia	639,955	241,881
Banks in foreign countries	168,964	252,928
Finance lease	23,455	22,110
	832,374	**516,919**
Current borrowings		
Banks in Croatia	216,295	279,625
Banks in foreign countries	88,208	85,863
Finance lease	1,504	1,858
Other	2,053	1,389
	308,060	**368,735**
Total borrowings	**1,140,434**	**885,654**

Bank borrowings in the amount of HRK 1,093,423 thousand (2010: HRK 603,937 thousand) are secured by mortgages over the Company's land and buildings.

NOTE 33 – BORROWINGS (continued)

The finance lease liabilities are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2011	2010	2011	2010	2011	2010
	(in thousands of HRK)					
Up to 1 year	3,417	3,852	1,913	1,994	1,504	1,858
Between 1 and 5 years	13,652	16,735	6,317	8,067	7,335	8,668
After 5 years	19,345	17,529	3,225	4,087	16,120	13,442
Less: future finance charges	**(11,455)**	**(14,148)**	**(11,455)**	**(14,148)**	**24,959**	**23,968**
Present value of minimum lease payments	**24,959**	**23,968**			**24,959**	**23,968**
Included in the financial statements within:						
Current borrowings					1,504	1,858
Non-current borrowings					23,455	22,110
					24,959	**23,968**

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

	2011	2010
	(in thousands of HRK)	
6 months or less	901,897	314,257
6 – 12 months	27,011	54,478
1 – 5 years	211,526	516,919
	1,140,434	**885,654**

If the interest rate on borrowings at variable rates increases to 6.29 % on average, the liability in respect of interest would increase by HRK 4,534 thousand (2010: based on an average increase to 4.5%, the liability would increase by HRK 3,171 thousand).

The maturity of non-current borrowings is as follows:

	2011	2010
	(in thousands of HRK)	
Between 1 and 2 years	177,445	322,337
Between 2 and 5 years	638,809	179,179
Over 5 years	16,120	15,403
	832,374	**516,919**

NOTE 33 – BORROWINGS (continued)

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

	2011		2010	
	HRK	EUR	HRK	EUR
	%	%	%	%
Non-current borrowings				
Banks in Croatia	10.00	6.17	7.69	5.68
Banks in foreign countries	-	4.41	-	4.24
Finance lease	-	7.32	-	6.65
Current borrowings				
Banks	5.17	-	6.75	-
Other	5.00	-	5.00	-

During 2011, Podravka d.d. utilised the remaining balance of the syndicated long-term loan in the amount of EUR 67,845 thousand. The loan was approved in late 2010 in the original amount of EUR 100,000 thousand, drawable in tranches A, B, and C, in foreign currency and in kunas, repayable over a period of 5 years, with an interest rate on the foreign-currency denominated portions of tranches A and B of three-month EURIBOR + 4.75% and on the HRK-denominated portion of tranche C of three-month ZIBOR + 4.75%. In 2011, Podravka d.d. utilised the syndicated loan as follows: HRK 130,000 thousand to redeem comercial papers and HRK 375,000 thousand to redeem bonds. In addition, a short-term liquidity loan of HRK 20,000 thousand was utilised. The existing long-term loans were repaid in accordance with the repayment schedule for the year.

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

	Carrying amounts		Fair value	
	2011	2010	2011	2010
	(in thousands of HRK)		*(in thousands of HRK)*	
Non-current borrowings				
Banks in Croatia	639,955	241,881	639,480	242,071
Foreign banks	168,964	252,928	168,964	252,928
Finance lease	23,455	22,110	23,455	22,110
	832,374	**516,919**	**831,899**	**517,109**

The fair value has been determined on the basis of the discounted cash flows using the interest rate of 6.06 % (2010: 5.05 %).

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

NOTE 33 – BORROWINGS (continued)

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

	2011	2010
	(in thousands of HRK)	
HRK	233,929	293,343
EUR	906,505	592,311
	1,140,434	**885,654**

The Company has the following undrawn borrowing facilities:

	2011	2010
	(in thousands of HRK)	
Floating rate:		
- Expiring within one year	33,106	503,764
	33,106	**503,764**

The balance represents the undrawn portion of a short-term revolving credit provided by Podravska banka in the amount of HRK 20,000 thousand and the undrawn facility for opening letters of credit for the purpose of import of goods with deferred payment.

NOTE 34 – PROVISIONS

	2011	2010
	(in thousands of HRK)	
Non-current	21,526	20,567
Current	15,016	12,631
	36,542	**33,198**

(in thousands of HRK)	Jubilee awards	Vacation accrual	Termination benefits - incentives	Legal actions	Total
Analysis of total provisions as at 31 December 2010:					
Non-current	6,474	-	7,227	6,866	20,567
Current	1,600	10,753	-	278	12,631
	8,074	**10,753**	**7,227**	**7,144**	**33,198**
At 1 January 2011					
Charged/(credited) to statement of comprehensive income:					
Increase in provisions	821	12,593	673	1,011	15,098
Utilised during the year	(1,544)	(10,090)	(12)	(108)	(11,754)
At 31 December 2011	**7,351**	**13,256**	**7,888**	**8,047**	**36,542**
Analysis of total provisions as at 31 December 2011:					
Non-current	5,812	-	7,888	7,826	21,526
Current	1,539	13,256	-	221	15,016
	7,351	**13,256**	**7,888**	**8,047**	**36,542**

NOTE 34 – PROVISIONS (continued)

Employee benefits

This provision comprises estimated employee benefits relating to unused vacation days and jubilee awards, as defined by the collective bargaining agreement. The non-current provision in the amount of HRK 5,812 thousand (2010: HRK 6,474 thousand) relates to the estimated acquired rights to jubilee awards that will be paid after 2011.

The current amount of employee benefits includes HRK 13,256 thousand (2010: HRK 10,753 thousand) in respect of unused vacation days and HRK 1,539 thousand (2010: HRK 1,600 thousand) in respect of jubilee awards that will be paid in 2012.

Termination benefits

In 2011, the long-term provisions for regular termination benefits amounted to HRK 7,888 thousand (2010: HRK 7,227 thousand).

Legal proceedings

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

Based on the expert opinion of legal counsel, the Company's Management believes that the outcome of these legal proceedings will not give rise to any significant loss beyond the amounts provided at 31 December 2011.

NOTE 35 – TRADE AND OTHER PAYABLES

	2011	2010
	(in thousands of HRK)	
Trade payables	271,726	250,354
Trade payables – intragroup transactions	44,305	46,405
Other liabilities	96,909	220,266
	412,940	**517,025**

At 31 December 2011, the carrying amounts of trade and other payables approximate their fair values due to the short-term nature of those liabilities.

Other payables include the following:

	2011	2010
	(in thousands of HRK)	
Salaries and other benefits to employees	31,578	32,582
Deferred lease income	31,456	34,323
Package waste disposal fee payable	11,119	7,003
Accrued interest not yet due on bonds and borrowings	9,530	18,170
Other accrued expenses	8,746	7,476
Taxes, contributions and other duties payable	3,156	5,415
Dividends payable	685	687
Accrued liabilities per share option contract	-	113,940
Other	639	670
	96,909	**220,266**

In 2011, the debt under option contracts was closed in accordance with the Settlement Agreement entered into by Podravka d.d., OTP Bank and MOL (Note 25).

NOTE 36 – DEFINED BENEFIT PLAN

Defined benefit plan

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

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

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

The actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2011 by the actuaries of the firm Aktuarijat Sanjković d.o.o. In 2011, the Company made a provision of HRK 7,351 thousand (2010: HRK 8,074 thousand)for jubilee awards and HRK 7,888 thousand (2010:HRK 7,227 thousand) for regular retirement benefits.

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

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

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

NOTE 36 – DEFINED BENEFIT PLAN (continued)

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

	2011	2010
	(in thousands of HRK)	
Interest expense	982	894
Current service cost	620	648
Benefits paid	(1,556)	(1,542)
Net actuarial (gain) / loss for the year	(108)	271
	(62)	**271**

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

	2011	2010
	(in thousands of HRK)	
Present value of jubilee awards	7,351	8,074
Present value of termination benefits	7,888	7,227
Obligation reported in the statement of financial position	**15,239**	**15,301**

Of which by maturity:

	2011	2010
	(in thousands of HRK)	
Short-term	1,539	1,600
Long-term	13,700	13,701
	15,239	**15,301**

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

	2011	2010
	(in thousands of HRK)	
At 1 January	15,301	15,029
Current service cost	620	648
Interest expense	982	894
Actuarial (gains) / loss	(108)	271
Benefits paid	(1,556)	(1,542)
Other actuarial adjustments	-	1
At 31 December	**15,239**	**15,301**

NOTE 37 – FINANCIAL INSTRUMENTS

37.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

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

The gearing ratio at the reporting date was as follows:

	2011	2010
	(in thousands of HRK)	
Debt (long- and short-term borrowings)	1,140,434	1,256,754
Cash and cash equivalents	(69,133)	(75,365)
Net debt	1,071,301	1,181,389
Equity	1,212,295	1,169,086
Net debt to equity ratio	88.37%	101.05%

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

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

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

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.2. Categories of financial instruments

	2011	2010
	(in thousands of HRK)	
Financial assets		
Loans and receivables (including cash and cash equivalents)	807,302	938,104
Held-to-maturity bills	7,400	23,713
At fair value through profit or loss	59	4,792
Financial liabilities at amortised cost		
Financial lease liabilities	24,959	23,968
Borrowings	1,112,168	857,549
Trade and other payables	409,784	511,610
Financial liabilities at fair value through profit or loss		
Bonds issued	-	371,100
Interest swap	3,307	4,137

37.3. Financial risk management objectives

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

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

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

37.4. Market risk

Commodity risk management (price risk)

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

The Company operates a centralised Purchase function, Fixed rate, long-term framework agreements are entered into, with the terms and conditions defined in line with the market trends. Thus, the Purchase function monitors regularly the global trends on commodity exchanges and uses regular market reports provided by strategic suppliers, which serves as the basis to respond on the spot market whenever a certain commodity has reached a favourable price for Podravka.

Sales function based risk

The Company generates approximately 60.2 % (2010: 61.5%) of its revenue on the domestic market, whereas around 39.8% (2010: 38.5%) of the sales are generated on international markets, mainly through related entities. The Company determines the selling prices and rebates in accordance with the macroeconomic conditions prevailing in each of the markets, which is at the same time the maximum sales function based risk.

NOTE 37 – FINANCIJSKI INSTRUMENTI (continued)

37.5. Foreign exchange risk management

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

	Liabilities		Assets	
	2011	2010	2011	2010
	(in thousands of HRK)		*(in thousands of HRK)*	
European Union (EUR)	985,418	653,877	254,881	316,504
USA (USD)	10,411	7,379	6,519	7,801
Other currencies	1,530	1,368	15,522	10,498

Foreign currency sensitivity analysis

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

The following table details the Company's sensitivity to a 1.23 % increase in Croatian kuna against the relevant foreign currencies (2010: 0.48 % increase in Croatian kuna against the relevant foreign currencies). The sensitivity rates below are used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for the above specified percentage of change in foreign currency rates. The sensitivity analysis includes monetary assets and monetary liabilities in foreign currencies. A negative number below indicates a decrease in profit and other equity where Croatian kuna increases against the relevant currency for the percentage specified above. For a weakening of Croatian kuna against the relevant currency in the same percentage, there would be an equal and opposite impact on the profit.

	EUR impact		USD impact	
	2011	2010	2011	2010
	(in thousands of HRK)		*(in thousands of HRK)*	
Profit	7,802	1,607	415	10
Loss	-	-	-	-

	Impact of other currencies	
	2011	2010
	(in thousands of HRK)	
Profit	-	-
Loss	460	445

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

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.6. Interest rate risk management

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

Interest rate sensitivity analysis

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the interest expense of the Company as of 31 December 2011 would have changed by HRK 4,534 thousand (2010: HRK 3,171 thousand).

37.7. Other price risk

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

37.8. Credit risk management

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

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

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

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

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.8. Credit risk management (continued)

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

37.9. Liquidity risk management

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

Liquidity and interest rate tables

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

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2011							
Non-interest bearing	-	277,368	99,038	4,789	11,469	17,120	409,784
Interest bearing	6.04	16,417	98,739	248,764	1,012,619	80,089	1,456,628
		293,785	**197,777**	**253,553**	**1,024,088**	**97,209**	**1,866,412**
2010							
Non-interest bearing	-	270,201	80,948	129,005	11,469	19,987	511,610
Interest bearing	5.42	22,047	208,238	584,529	656,171	38,761	1,509,746
		292,248	**289,186**	**713,534**	**667,640**	**58,748**	**2,021,356**

The Company's non-interest bearing liabilities up to one month comprise mainly trade payables in the amount of HRK 221,148 thousand for the year 2011. (2010: HRK 215,903 thousand) and amounts due to employees in the amount of HRK 31,578 thousand (2010: HRK 32,582 thousand).

The non-interest bearing liabilities of the Company due in a period of over five years include, among others, deferred income in the amount HRK 17,120 thousand (2010: HRK 19,987 thousand).

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

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.9. Liquidity risk management (continued)

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

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2011							
Non-interest bearing	-	370,085	147,030	51,930	-	-	569,045
Interest bearing	5.24	75,373	10,973	60,130	117,334	-	263,810
		445,458	**158,003**	**112,060**	**117,334**	**-**	**832,855**
2010							
Non-interest bearing	-	417,875	156,951	44,206	-	-	619,032
Interest bearing	5.27	85,940	69,433	47,288	174,258	-	376,919
		503,815	**226,384**	**91,494**	**174,258**	**-**	**995,951**

37.10. Fair value of financial instruments

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

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

Financial instruments held to maturity in the normal course of operations are carried at the lower of cost and the net amount less portion repaid. Fair value is determined as the amount at which a financial instrument can be exchanged between willing and knowledgeable parties in an arm's-length transaction, except in the event of forced sale or liquidation. The fair value of a financial instruments is the one quoted on the securities market or obtained using the discounted cash flow method.

At 31 December 2011, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their market value due to the short-term nature of those assets and liabilities.

NOTE 37 – FINANCIAL INSTRUMENTS (continued)

37.10. Fair value of financial instruments (continued)

37.10.1. Fair value measurements recognised in the statement of financial position

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

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

2. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

3. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
		(in thousands of HRK)		
Financial assets at FVTPL				
Investment in investment funds	59	-	-	59
Total	**59**	**-**	**-**	**59**
Financial liabilities at FVTPL				
Interest swap	-	3,307	-	3,307
Total	**-**	**3,307**	**-**	**3,307**

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

NOTE 38 – SHARE-BASED PAYMENTS

Employee share options

Options for purchase of Podravka d.d. shares are granted to the Company's Management Board President and members in accordance with the contracts. The exercise price of the granted option equals the weighted average share price of the Company's share achieved on the Zagreb Stock Exchange in the year the option is granted. The vesting period normally starts at the beginning of the business year. Options are acquired separately for each business year.

Options granted in period 2008 - 2011 can be exercised after minimum one and maximum three years after the year in which they were granted.

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

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

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

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

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

NOTE 38 – SHARE-BASED PAYMENTS (continued)

Options granted in 2011

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 11- issued 31/12/2011	20,000	31.12.2011.	31.12.2014.	301.05	231.00

Inputs into the model

	Series 7	Series 8	Series 10	Series 11
Grant date share price	510.00	261.00	302.68	231.00
Exercise price	535.25	361.14	308.81	301.05
Expected volatility (%)	21.11%	25.49%	33.84%	31.63%
Option life	2.5	3.0	3.0	3.0
Risk-free interest rate	6.813%	6.833%	5.625%	5.275%

Overview of option balances and exercised options:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	24,000	317.52	38,300	328.26
Granted during the year	20,000	301.05	20,000	308.81
Unused (lapsed) options	(4,000)	361.14	(34,300)	324.42
Balance at end of year	**40,000**	**304.93**	**24,000**	**317.53**

During 2011 and 2010 there were no options executions.

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

Option series	Number of options	Grant date	Expiry date	Exercise price	Fair value in the grant year
Series 10 - issued 31/12/2010	20,000	2010.	2013.	308.81	302.68
Series 11- issued 31/12/2011	20,000	2011.	2014.	301.05	231.00
Balance at end of year 2011	**40,000**				

At 31 December 2011, 40,000 options became vested (2010: 24,000 options). In 2011, for 4,000 options no rights have been realized (2010: 34,300 options). There were no exercised options in 2011 (2010: 0 options)
Weighted average exercise price of remaining share options as the end of 2011 was HRK 304.93 (2010: HRK 317.53).
Weighted average remaining contractual period at the end of the year was 913 days (2010: 974 days).

NOTE 39 – RELATED PARTY TRANSACTIONS

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

REVENUE

	2011	2010
	(in thousands of HRK)	
Sales - products and trade goods	570,070	495,356
Service sales	61,556	52,054
	631,626	**547,410**

	Sales - products and trade goods		Service sales	
	2011	2010	2011	2010
	(in thousands of HRK)		*(in thousands of HRK)*	
Group company:				
Podravka d.o.o., Sarajevo	155,526	144,984	2,489	1,275
Podravka d.o.o., Ljubljana	94,271	89,393	3,208	3,269
Podravka d.o.o., Beograd	63,584	48,153	387	359
Podravka-Int.Deutschland-"Konar" GmbH	46,662	47,987	1,401	1,862
Podravka d.o.o.e.l., Skopje	37,894	37,591	634	284
Podravka-International Pty Ltd, Sydney	34,619	29,382	1,448	1,431
Podravka d.o.o., Podgorica	28,976	27,413	1,130	364
Danica d.o.o., Koprivnica	22,873	14,619	21,286	18,915
Podravka-International Inc. Wilmington	21,696	-	70	-
Podravka-Polska Sp.z o.o., Kostrzyn	19,217	9,272	8,539	7,687
Podravka-International kft, Budapest	15,348	13,370	967	568
Podravka-International s r.o., Zvolen	11,908	13,768	628	273
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	10,807	11,310	1,507	936
Ital-Ice d.o.o., Poreč	5,640	3,899	1,465	1,686
Podravka International, Turkey	697	3,790	-	-
Belupo d.d., Koprivnica	321	425	16,242	12,378
Lero d.o.o., Rijeka	31	-	-	-
Other companies	-	-	155	767
Total related party sales	**570,070**	**495,356**	**61,556**	**52,054**

NOTE 39 – RELATED PARTY TRANSACTIONS (continued)

Investment revenue

	2011	2010
	(in thousands of HRK)	
Interest income	15,340	18,772
Profits of subsidiaries	19,836	15,113
	35,176	**33,885**

EXPENSES

Remuneration to the Management Board members and executives

	2011	2010
	(in thousands of HRK)	
Salaries	18,138	17,207
Share options through income statement	1,618	(2,512)
	19,756	**14,695**

LOAN RECEIVABLES

Loan receivables – long-term:

	2011	2010
	(in thousands of HRK)	
At beginning of year	218,816	286,758
Repayments received	(3,439)	(28,420)
Other movements	(53,844)	(39,528)
Foreign exchange difference	-	6
At end of year	161,533	218,816
Maturity: one year or less	(53,844)	(57,283)
	107,689	**161,533**

NOTE 39 – RELATED PARTY TRANSACTIONS (continued)

Loan receivables – current:

	2011	2010
	(in thousands of HRK)	
At beginning of year	2,000	797
Increase during the year	13,226	7,007
Repayments received	(2,750)	(4,000)
Other changes – write-offs	(349)	(1,804)
Foreign exchange difference	95	-
At end of year	12,222	2,000
Maturity: one year or less	53,844	57,283
	66,066	**59,283**
Total loan receivables	**173,755**	**220,816**

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

	Interest rate	2011	2010
		(in thousands of HRK)	
Belupo d.d., Koprivnica	7% p.a.	161,533	215,377
Danica d.o.o., Koprivnica	7% p.a.	8,250	5,439
Podravka-International kft, Budapest	7% p.a.	1,781	-
Lero d.o.o., Rijeka	7% p.a.	1,609	
Podravka International, Turkey	7% p.a.	582	-
		173,755	**220,816**

The effective interest rate is 7.00 % p.a.

The maturity of long-term borrowings is as follows:

	2011	2010
	(in thousands of HRK)	
Between 1 and 2 years	53,844	53,844
Between 2 and 5 years	53,845	107,689
	107,689	**161,533**

NOTE 39 – RELATED PARTY TRANSACTIONS (continued)

BORROWINGS

	Effective interest rate			
	2011	2010	2011	2010
			(in thousands of HRK)	
KOTI Nekretnine d.o.o., Koprivnica	5%	5%	1,847	1,126
Poni trgovina d.o.o., Koprivnica	5%	5%	205	263
			2,052	**1,389**

TRADE RECEIVABLES AND PAYABLES

	Short-term trade receivables		Short-term trade payables	
	2011	2010	2011	2010
	(in thousands of HRK)		*(in thousands of HRK)*	
Company:				
Podravka d.o.o., Sarajevo	64,231	58,675	-	-
Danica d.o.o., Koprivnica	57,062	46,121	26,902	23,786
Podravka d.o.o., Beograd	45,171	45,000	-	-
Podravka d.o.o., Ljubljana	33,342	26,763	24	10
Belupo d.d., Koprivnica	24,054	14,481	541	411
Podravka d.o.o., Podgorica	16,914	14,552	-	-
Podravka d.o.o.e.l., Skopje	13,962	20,379	655	1,595
Podravka-Polska Sp.z o.o., Kostrzyn	12,484	4,211	1,682	341
Podravka-Int.Deutschland-„Konar“ GmbH	11,507	20,313	6	1
Podravka-International Pty Ltd, Sydney	6,972	4,400	-	-
Podravka-International Inc. Wilmington	4,909	-	163	-
Podravka-International kft, Budapest	4,255	6,458	-	-
Podravka-International s r.o., Zvolen	4,158	5,054	-	-
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	3,361	4,396	628	500
Podravka International, Turkey	2,506	3,831	-	-
Ital-Ice d.o.o., Poreč	411	290	13,384	9,180
Podravka Inženjering d.o.o., Koprivnica	54	449	320	664
KOTI Nekretnine d.o.o., Koprivnica	3	-	-	-
Poni trgovina d.o.o., Koprivnica	-	69	-	-
Lero d.o.o., Rijeka	-	10,647	-	9,917
Total trade receivables and payables – Group entities	**305,356**	**286,089**	**44,305**	**46,405**

NOTE 39 – RELATED PARTY TRANSACTIONS (continued)

OTHER RECEIVABLES

Receivables from related parties in respect of profit distributions

	2011	2010
	(in thousands of HRK)	
Podravka d.o.o., Podgorica	-	1,477
	-	**1,477**

Other receivables from Group entities

	2011	2010
	(in thousands of HRK)	
Belupo d.d., Koprivnica	18,846	52,840
Podravka International, Turska	56	-
Danica d.o.o., Koprivnica	47	36
	18,949	**52,876**

Other receivables from the subsidiaries within the Group comprise past due amounts for long-term loans granted in Croatia owed by Belupo d.d. in the amount of HRK 5,765 thousand (2010: HRK 39,528 thousand) and the interest on the loans due from Danica d.o.o. in the amount of HRK 47 thousand (2010: HRK 36 thousand), Podravka International Turkey in the amount of HRK 56 thousand, and Belupo d.d. in the amount of HRK 13,081 thousand (2010: HRK 13,312 thousand).

GUARANTEES AND WARRANTIES

Guarantees and warranties to related companies

	2011	2010
	(in thousands of HRK)	
Belupo d.d., Koprivnica	93,050	105,063
Podravka – Lagris a.s., Dolni Lhota u Luhačovic	51,676	44,517
Danica d.o.o., Koprivnica	50,711	55,312
Podravka d.o.o., Ljubljana	1,732	1,699
Podravka d.o.o., Beograd	1,699	2,479
Podravka-International S.R.L., Bukurešt	-	481
	198,868	**209,551**

NOTE 40 – CONTINGENT LIABILITIES

	2011	2010
	(in thousands of HRK)	
Legal proceedings	410	3,692
Guarantees – external	13,279	14,376
Guarantees – Group entities	198,868	209,551
	212,557	**227,619**

With respect to other legal proceedings and guarantees given, no contingent liabilities were recognised in the statement of financial position as of 31 December, as Management estimated that as at 31 December 2011 and 2010 no contingent liability would arise for the Company.

NOTE 41 – COMMITMENTS

In 2011, the purchase cost of tangible fixed assets contracted with suppliers amounted to HRK 30,038 thousand (2010: HRK 3,825 thousand), which are not yet realised or recognised in the statement of financial position.

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

	2011	2010
	(in thousands of HRK)	
Not later than 1 year	13,914	19,970
Later than 1 year and not later than 5 years	15,019	11,957
	28,933	**31,927**

NOTE 42 – SUBSEQUENT EVENTS

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

NOTE 43 – APPROVAL OF THE FINANCIAL STATEMENTS

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

Zvonimir Mršić
President of the Board