PODRAVKA d.d. and Its Subsidiaries, Koprivnica

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

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RESPONSIBLITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Signed on behalf of the Management Board:

Miroslav Vitković

Podravka d.d.

Ante Starčevića 32
48 000 Koprivnica
Republic of Croatia

Koprivnica, 10 March 2011

Deloitte.

Deloitte d.o.o.
ZagrebTower
Radnička cesta 80
10 000 Zagreb
Hrvatska
OIB: 11686457780

Tel: +385 (0) 1 2351 900
Fax: +385 (0) 1 2351 999
www.deloitte.com/hr

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Podravka d.d.:

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Društvo upisano u sudski registar Trgovačkog suda u Zagrebu: MBS 030022053; uplaćen temeljni kapital: 44.900,00 kuna; članovi uprave: Branislav Vrtačnik i Paul Trinder; poslovna banka: Zagrebačka banka d.d., Paromlinska 2, 10 000 Zagreb, ž. račun/bank account no. 2360000-1101896313; devizni račun: 2100312441 SWIFT Code: ZABAHR2X IBAN: HR27 2360 0001 1018 9631 3; Privredna banka Zagreb d.d., Račkoga 6, 10 000 Zagreb, ž. račun/bank account no. 2340009–1110098294; devizni račun: 70010-519758 SWIFT Code: PBZGHR2X IBAN: HR38 2340 0091 1100 9829 4; Raiffeisenbank Austria d.d., Petrinjska 59, 10 000 Zagreb, ž. račun/bank account no. 2484008–1100240905; devizni račun: 2100002537 SWIFT Code: RZBHHR2X IBAN: HR48 2484 0082 1000 0253 7

Deloitte se odnosi na tvrtku Deloitte Touche Tohmatsu, osnovanu u skladu sa švicarskim pravom (Swiss Verein) i mrežu njegovih tvrtki članica, od kojih je svaka pravno odvojena i samostalna osoba. Molimo posjetite www.deloitte.com/hr/o-nama za detaljni opis pravne strukture Deloitte Touche Tohmatsu i njegovih tvrtki članica.

Member of Deloitte Touche Tohmatsu

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

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

Deloitte d.o.o., Zagreb

Branislav Vrtačnik, Certified Auditor

Zagreb, 10 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2010

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

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

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2010

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

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

NOTE 1 – GENERAL INFORMATION

History and incorporation

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

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

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

Corporate governance and management

General Assembly

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

President	Hrvoje Matić

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

Supervisory Board

Supervisory Board members during 2010:

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

- By the Podravka General Assembly decision held on 31 August 2010. the statute was amended, amending the provision on the number of members of the Supervisory Board, in a way that reduces the number of members to the Supervisory Board to nine members

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Supervisory Board members during 2009:

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

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

NOTE 1 – GENERAL INFORMATION (continued)

Corporate governance and management (continued)

Management Bord during 2010:

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

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

Management Board during 2009:

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

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

NOTE 2– ADOPTION OF NEW AND REVISED STANDARDS AND INTERPRETATIONS

2.1. Standards and Interpretations effective in the current period

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

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

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

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

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

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

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

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

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

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

2.2. Standards and Interpretations early adopted by the Group

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

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

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

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

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

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

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

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

2.4. Standards and Interpretations in issue but not yet adopted

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

IFRS 9 *"Financial Instruments"* (effective for annual periods beginning on or after 1 January 2013). On 28 September 2010 IASB reissued IFRS 9, incorporating new requirements on accounting for financial liabilities and carrying over from IAS 39 the requirements for derecognition of financial assets and financial liabilities. Standard uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments (its business model) and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the many different impairment methods in IAS 39. The new requirements on accounting for financial liabilities address the problem of volatility in profit or loss arising from an issuer choosing to measure its own debt at fair value. The IASB decided to maintain the existing amortised cost measurement for most liabilities, limiting change to that required to address the own credit problem. With the new requirements, an entity choosing to measure a liability at fair value will present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income section of the income statement, rather than within profit or loss.

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

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

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

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

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

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

Amendments to IAS 24 "*Related Party Disclosures*" - Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party (effective for annual periods beginning on or after 1 January 2011). The amendments provide a partial exemption for government-related entities. Until now, if a government controlled, or significantly influenced, the entity was required to disclose information about all transactions with other entities controlled, or significantly influenced by the same government. The revised standard still requires disclosures that are important to users of financial statements but eliminates requirements to disclose information that is costly to gather and of less value to users. The IASB has also simplified the definition and removed inconsistencies.

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

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

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

Amendments to various standards and interpretations *"Improvements to IFRSs (2010)"* resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13) primarily with a view to removing inconsistencies and clarifying wording (most amendments are to be applied for annual periods beginning on or after 1 January 2011),

Amendments to IFRIC 14 "IAS 19 — *"The Limit on a defined benefit Asset, Minimum Funding Requirements and their Interaction*" - Prepayments of a Minimum Funding Requirement (effective for annual periods beginning on or after 1 January 2011). Without the amendments, in some circumstances entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. The amendments correct this problem.

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

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Entity anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application except for application of IFRS 9 due to change in measurement and disclosures related to financial instruments.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1. Statement of compliance

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

3.2. Basis of preparation

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

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

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

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

3.3. MATTERS AFFECTING PRIOR YEARS

3.3. a) Restatement of prior periods

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (CONTINUED)

3.3. a) Restatement of prior periods (continued)

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

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

	Note	As originally reported	As adjusted	Impact through an increase / (decrease)
Statement on the financial position at 1 January 2009				
Deferred income – sale and leaseback transaction	37	-	40,058	40,058
Total liabilities		**2,671,600**	**2,711,658**	**40,058**
Retained earnings	32	258,578	218,520	(40,058)
Total equity		**1,963,505**	**1,923,447**	**(40,058)**
Statement on the comprehensive income for the year ended 31 December 2008				
Revenue from the sale and leaseback transaction	6	-	2,867	2,867
Profit for the year		**44,596**	**47,463**	**2,867**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (CONTINUED)

3.3. b) Option agreements

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

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

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

	Note	As originally reported	As adjusted	Impact through an increase/ (decrease)
Statement on the financial position at 31 December 2009				
Accrued expenses on option contracts	37	-	92,932	92,932
Total liabilities		**2,504,673**	**2,597,605**	**92,932**
Accumulated losses	32	(95,849)	(188,781)	(92,932)
Total Equity		**1,632,028**	**1,539,096**	**(92,932)**
Statement on the comprehensive income for the year ended 31 December 2009				
Losses per option contracts		-	(92,932)	(92,932)
Loss for the period	32	**(288,059)**	**(380,991)**	**(92,932)**

NOTE 3 – SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3. MATTERS AFFECTING PRIOR YEARS (continued)

3.3. c) Formal investigation

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

3.4. Basis of consolidation

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

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

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

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

3.5. Goodwill

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.6. Non-current assets held for sale

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

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

3.7. Revenue recognition

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

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

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

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

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

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

(b) Sales of products and goods – retail

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.7. Revenue recognition (continued)

(c) Sales of services

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

(d) Interest income

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

(e) Dividend income

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

(f) Government subsidies

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

3.8. Leases

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

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

Sale and leaseback transactions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8. Leases (continued)

Sale and leaseback transactions (continued)

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

3.9. Foreign currencies

(a) Functional and presentation currency

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

(b) Foreign currency transactions and balances

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

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

3.10. Borrowing costs

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.11. Share-based payments

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

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

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

3.12. Government grants

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

3.13. Dividends

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

3.14. Segment reporting

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.15. Taxation (continued)

Current and deferred tax for the period

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

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

Value added tax

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

3.16. Property, plant and equipment

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.17. Intangible assets

Licences, brands and distribution rights

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

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

Computer software

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

Internally-generated intangible assets - research and development expenditure

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Impairment of tangible and intangible assets

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

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

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

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

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

3.19. Inventories

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

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

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

Small inventory and tools are expensed when put into use.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Trade receivables

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

3.21. Cash and cash equivalents

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

3.22. Share capital

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

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

3.23. Employee benefits

(a) Pension obligations and post-employment benefits

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

(b) Termination benefits

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.23. Employee benefits (continued)

(c) Regular retirement benefits

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

(d) Long-term employee benefits

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

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

(e) Short-term employee benefits

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

(f) Share-based compensation

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

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

3.24. Provisions

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25. Financial assets

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

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

Effective interest method

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

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

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

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

A financial asset is classified as held for trading if:

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25. Financial assets (continued)

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

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

Held-to-maturity investments

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

Available-for-sale financial assets (AFS)

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

Unlisted shares and listed redeemable notes held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. Fair value is determined in the manner described in Note 39. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in statement of comprehensive income. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in statement of comprehensive income for the period.

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

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

Loans and receivables

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25. Financial assets (continued)

Impairment of financial assets

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

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

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

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

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

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.25. Financial assets (continued)

Impairment of financial assets (continued)

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

Derecognition of financial assets

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

3.26. Financial liabilities and equity instruments issued by the Group

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

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

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

A financial liability is classified as held for trading if:

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Other financial liabilities

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

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

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Contracts on financial guarantee

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

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

Derecognition of financial liabilities

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

3.27. Comparatives

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

NOTE 4 – CRITICAL ACCOUNTING JUDGEMENTS AND KEY ACCOUNTING ESTIMATES

Critical judgements in applying accounting policies

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

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

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. During 2010, the directors determined that the useful life of certain items of property, plant and equipment exceeded the original estimates, resulting in a decreased depreciation charge of HRK 1,516 thousand.
During 2009, the directors determined that the useful life of certain items of property, plant and equipment exceeded the original estimates, resulting in a decreased depreciation charge of HRK 4,161 thousand.

Impairment of non-current assets, including goodwill

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

The carrying amount of goodwill is HRK 44,293 thousand (2009: HRK 42,877 thousand) (see Note 20).

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

A deferred tax asset is recognized only to the extent that it is probable that the related tax benefit will be realized. In determining the amount of deferred taxes that can be recognised are required, which are based on the probable quantification of time and level of future taxable profits, together with the future tax planning strategy.
In 2008 Group Management recognized deferred tax assets for temporary tax differences for the first time in the consolidated financial statements of the Group. Restatement of prior periods was not conducted due to the immaterial effect of the previous period. In 2009 and 2010 Group recognized deferred tax assets at the available tax differences.
The carrying amount of deferred tax assets was HRK 52,330 thousand (2008: HRK 53,589 thousand) (see Note 17).

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

Actuarial estimates used in determining the retirement bonuses

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

Consequences of certain legal actions

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

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

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

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

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

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

NOTE 5 – SEGMENT INFORMATION

Sales revenue

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

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

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

Segment revenues and results

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

(in thousands of HRK)	Segment revenue		Segment profit	
	2010	2009	2010	2009
Culinary	1,175,605	1,176,388	162,347	133,021
Food	742,652	724,891	46,545	28,751
Meat and Fish Products	502,279	517,479	6,160	11,283
Beverages and other	358,901	415,686	4,566	19,021
Pharmaceutical	742,835	752,692	108,718	101,510
	3,522,272	**3,587,136**	**328,336**	**293,586**
Investment revenue			13,048	7,076
Other losses, net			(50,856)	(439,653)
Central administration costs			(71,929)	(95,576)
Restructuring and other expenses			(13,742)	(32,721)
Finance costs			(95,521)	(98,048)
Profit / (loss) before tax			**109,336**	**(365,336)**

NOTE 5 – SEGMENT INFORMATION (continued)

Segment revenues and results (continued)

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

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

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

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

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

Segment assets and liabilities

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

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

NOTE 5 – SEGMENT INFORMATION (continued)

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

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

Podravka Group

Other segment information

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

Podravka Group

Geographical information

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

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

Information about major customers

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

NOTE 6 – INVESTMENT REVENUE

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

Investment revenue analysed by asset category:

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

NOTE 7 – OTHER LOSSES, NET

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

NOTE 8 – COST OF GOODS SOLD

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

NOTE 9 – GENERAL AND ADMINISTRATIVE EXPENSES

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

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

NOTE 10 – SELLING AND DISTRIBUTION COSTS

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

NOTE 11 – MARKETING EXPENSES

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

NOTE 12 – OTHER EXPENSES

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

NOTE 13 – EXPENSES BY NATURE

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

NOTE 14 – STAFF COSTS

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

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

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

NOTE 15 – FINANCE COSTS

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

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

NOTE 16 – NET FOREIGN EXCHANGE (LOSSES) / GAINS

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

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

NOTE 17 – INCOME TAX

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

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

Unused tax losses:	2010	2009
	(in thousands of HRK)	
Unused tax losses	127,191	162,085

The availability of unused tax losses expires as follows:

	(in thousands of HRK)	
Up to 2010	-	2,142
Up to 2011	23,425	60,804
Up to 2012	27,071	27,297
Up to 2013	67,063	68,742
Up to 2014	4,575	3,100
Up to 2015	5,057	-

NOTE 17 – INCOME TAX (continued)

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

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

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

Deferred tax assets arise from the following:

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

Deferred tax liabilities arise from the following:

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

NOTE 17 – INCOME TAX (continued)

Deferred tax assets arise from the following:

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

Deferred tax liabilities arise from the following:

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

NOTE 18 –EARNINGS / (LOSS) PER SHARE

Basic earnings / (loss) per share

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

	2010	**2009** restated
Net profit / (loss) attributable to shareholders (in thousands of HRK)	84,235	(380,991)
Weighted average number of shares	5,242,492	5,243,961
Basic earnings / (loss) per share (in kunas and lipas)	**16.07**	**(72.65)**

Diluted earnings / (loss) per share

Diluted earnings / (loss) per share were calculated as the basic earnings / (loss) per share, including the impact of the number of share options granted to employees, of which 31,000 were not exercised (2009: 63,900 options).

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

NOTE 19 – DIVIDEND PER SHARE

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

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

NOTE 20 - GOODWILL

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

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

NOTE 21 – INTANGIBLE ASSETS

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

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

NOTE 21 – INTANGIBLE ASSETS (continued)

(in thousands of HRK)	Software	Distribution rights	Brand	Investments in progress	Total
Cost					
At 1 January 2009	190,214	103,322	158,156	45,521	497,213
Effect of changes in the foreign exchange rates	(31)	183	77	(152)	77
Additions	1,665	2,534	-	18,728	22,927
Capitalised projects	-	-	-	13,469	13,469
Transfers	17,881	5,405	21,584	(44,870)	-
Disposals	(9,557)	-	-	-	(9,557)
At 31 December 2009	**200,172**	**111,444**	**179,817**	**32,696**	**524,129**
Accumulated amortisation					
At 1 January 2009	(119,592)	(23,481)	(10,541)	-	(153,614)
Effect of changes in the foreign exchange rates	28	(53)	(76)	-	(101)
Eliminated on disposal	9,552	-	-	-	9,552
Charge for the year	(6,146)	(14,216)	-	-	(20,362)
Impairment losses recognized during the year	-	(8,725)	(39,270)	-	(47,995)
At 31 December 2009	**(116,158)**	**(46,475)**	**(49,887)**	**-**	**(212,520)**
Carrying amount at 31 December 2009	**84,014**	**64,969**	**129,930**	**32,696**	**311,609**
Cost					
At 1 January 2010	200,172	111,444	179,817	32,696	524,129
Effect of changes in the foreign exchange rates	357	624	553	2	1,536
Additions	379	-	-	16,966	17,345
Transfers	23,273	7,734	40	(31,047)	-
Eliminated on disposal	(121)	-	-	-	(121)
At 31 December 2010	**224,060**	**119,802**	**180,410**	**18,617**	**542,889**
Accumulated amortisation					
At 1 January 2010	(116,158)	(46,475)	(49,887)	-	(212,520)
Effect of changes in the foreign exchange rates	(341)	(411)	(553)	-	(1,305)
Disposals	48	-	-	-	48
Charge for the year	(10,371)	(10,701)	-	-	(21,072)
At 31 December 2010	**(126,822)**	**(57,587)**	**(50,440)**	**-**	**(234,849)**
Carrying amount at 31 December 2010	**97,238**	**62,215**	**129,970**	**18,617**	**308,040**

NOTE 21 – INTANGIBLE ASSETS (continued)

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

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

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

NOTE 22 – PROPERTY, PLANT AND EQUIPMENT

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

NOTE 22 – PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

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

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

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

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

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

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

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

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

NOTE 23 –SUBSIDIARIES

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

NOTE 24 – LONG TERM FINANCIAL ASSETS

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

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

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

NOTE 25 – INVENTORIES

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

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

NOTE 26 – TRADE AND OTHER RECEIVABLES

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

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

Restricted deposit relates to a deposit with bank given in 2009 for the purpose of covering the difference in the price as per the Agreement on the Sale and Transfer of Podravka d.d. shares. The deposit funds are not available to the Group until the expiry of the Agreement and/or exercise of the options under the Agreement. Thus, the recovery of the deposit will depend on the final outcome in respect of the Agreement (See Notes 3.3.b and 3.3 c).

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

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

	2010	2009	2008
		(in thousands of HRK)	
At 1 January	115,873	111,428	108,701
Increase	21,231	24,212	17,522
Amounts collected	(2,927)	(3,452)	(6,642)
Written off as uncollectible	(8,253)	(16,315)	(8,153)
At 31 December	**125,924**	**115,873**	**111,428**

Impairment allowance for trade receivables and subsequent collections on the Group level were included in 'Selling and distribution expenses' (Note 10).

Ageing analysis of trade receivables past due but not impaired

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

NOTE 26 – TRADE AND OTHER RECEIVABLES (continued)

Other receivables at 31 December were as follows:

	2010	2009	2008
		(in thousands of HRK)	
Net VAT receivable	29,700	26,852	35,170
Prepaid expenses	18,226	11,698	12,834
Receivables in respect of interest accrued on given loans	10,974	11,266	8,143
Impairment allowance on loan interest receivable	(10,974)	(11,266)	(534)
Other receivables under forced collection proceedings	65,000	65,000	-
Impairment allowance on other financial receivables under forced collection proceedings	(65,000)	(65,000)	-
Other financial receivables in respect of guarantees paid	30,556	30,556	-
Impairment allowance on other financial receivables in respect of guarantees paid	(30,556)	(30,556)	-
Past due long-term loan receivables	1,381	1,381	131
Impairment allowance on past due long-term loan receivables	(1,381)	(1,381)	(131)
Prepaid income taxes	3,367	1,441	5,559
Receivables from employees	2,482	2,882	2,421
Other receivables – gross	6,592	7,268	9,052
Impairment allowance for other receivables	(1,036)	(1,036)	(1,036)
Total current receivables	**59,331**	**49,105**	**71,609**

Impairment allowances made during 2009 comprise the following:

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

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

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

	2010	2009	2008
		(in thousands of HRK)	
Investments in:			
Investment funds	14,796	22,321	23,416
	14,796	**22,321**	**23,416**

Movements during the year are as follows:

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

NOTE 28 – CASH AND CASH EQUIVALENTS

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

NOTE 29 – NON-CURRENT ASSETS HELD FOR SALE

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

NOTE 30 – SHARE CAPITAL

	2010	2009	2008
		(in thousands of HRK)	
Ordinary shares	1,626,001	1,626,001	1,626,001
Capital gains	22,337	25,294	22,569
Own shares	(67,604)	(67,604)	(61,214)
	1,580,734	**1,583,691**	**1,587,356**

	Number of shares	Ordinary shares	Share premium	Treasury shares	Total
	(in pcs)		*(in thousands of HRK)*		
At 1 January 2009	**5,267,326**	**1,626,001**	**22,569**	**(61,214)**	**1,587,356**
Purchase of treasury shares	(24,834)	-	-	(6,390)	(6,390)
Fair value of share based payments	-	-	2,725	-	2,725
At 31 December 2009	**5,242,492**	**1,626,001**	**25,294**	**(67,604)**	**1,583,691**
At 1 January 2010	**5,242,492**	**1,626,001**	**25,294**	**(67,604)**	**1,583,691**
Fair value of share based payments	-	-	(2,957)	-	(2,957)
At 31 December 2010	**5,242,492**	**1,626,001**	**22,337**	**(67,604)**	**1,580,734**

As at 31 December 2010, the Group's share capital amounted to HRK 1,626,001 thousand, distributed among 5,420,003 shares (2009: HRK 1,626,001 thousand and 5,420,003 shares). The nominal value amounted to HRK 300 per share. All issued shares are fully paid in.

The Employee Share Option Plan is described in detail in Note 40 to the consolidated financial statements.

NOTE 31 – RESERVES

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

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

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

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

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

NOTE 32 – (ACCUMULATED LOSS)/RETAINED EARNINGS

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

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

NOTE 33 – NON-CONTROLLING INTERESTS

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

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

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

On 17 May 2006, the Company issued bonds in the nominal amount of HRK 375,000 thousand, at an interest rate of 5.125 %, which mature on 17 May 2011.

At 31 December 2010, the liabilities for bonds issued are shown within short-term liabilities.

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

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

NOTE 35 – BORROWINGS

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

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

The finance lease liabilities of the Group are as follows:

	Minimum lease payments		Finance cost		Present value of minimum lease payments	
	2010	2009	2010	2009	2010	2009
			(in thousands of HRK)			
Up to 1 year	6,300	7,345	2,550	2,494	3,750	4,851
Between 1 and 5 years	22,255	27,072	8,702	10,078	13,553	16,994
After 5 years	17,529	23,179	4,087	5,362	13,442	17,817
Less: future finance charges	**(15,339)**	**(17,934)**	**15,339**	**17,934**	**30,745**	**39,662**
Present value of minimum lease payments	**30,745**	**39,662**			**30,745**	**39,662**
Included in the consolidated financial statements within:						
Current borrowings					4,306	4,851
Non-current borrowings					27,630	34,811
					31,936	**39,662**

NOTE 35 – BORROWINGS (continued)

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

	2010	2009
	(in thousands of HRK)	
6 months or less	401,386	466,326
6 – 12 months	144,835	284,663
1 – 5 years	594,427	506,977
	1,140,648	**1,257,966**

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

The maturity of non-current borrowings is as follows:

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

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

	2010			2009		
	HRK	EUR	Other	HRK	EUR	Other
	%	%	%	%	%	%
Non-current borrowings						
Banks in Croatia	7.90	5.28	-	5.73	6.99	-
Banks in foreign countries	-	3.55	4.94	-	3.88	4.46
Finance lease	-	6.46	-	-	6.43	-
Other	-	-	-	-	-	8.53
Current borrowings						
Banks	6.72	-	5.39	6.99	6.94	5.24
Other	5.00	-	-	5.00	-	-

During 2010, Podravka used part of an approved long-term syndicated loan of EUR 32,155 thousand. The loan was approved in the amount of EUR 100,000 thousand in tranches A, B and C, for use in foreign currency and HRK with a repayment period of 5 years and the interest rate for foreign currency tranche A and B at three-month EURIBOR + 4.75% and for the domestic tranche C at Quarterly ZIBOR + 4.75%). With the used part of syndicated loan Podravka repaid short-term bank loans of HRK 129,598 thousand and HRK 98,247 thousand. Existing long-term loans were repaid in accordance with the amortization schedule for the current year. Within short-term loans there is a second tranche of commercial notes issued on 8 February 2010 in the amount of HRK 130,000 thousand with a yield of 9.15%, issue price 91.638%. The bills were redeemed on 7 February 2011.

NOTE 35 – BORROWINGS (continued)

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

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

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

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

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

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

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

The Company has the following undrawn borrowing facilities:

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

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

NOTE 36 – PROVISIONS

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

Employee benefits

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

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

Legal actions

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

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

NOTE 37 – TRADE AND OTHER PAYABLES

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

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

Other liabilities include the following:

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

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

In 2009, a provision of HRK 102,610 thousand was made for a guarantee given to Fima Grupa d.d., for Erste faktoring d.o.o. Zagreb. This transaction was made in accordance with the matter described in Note 3.3 b.

NOTE 38 – RETIREMENT BENEFIT PLAN

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

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

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

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

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

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

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

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

NOTE 38 – RETIREMENT BENEFIT PLAN (continued)

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

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

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

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

Of which by maturity:

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS

39.1. Capital risk management

Net debt to equity ratio (Gearing ratio)

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

The gearing ratio at the reporting date was as follows:

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.2. Categories of financial instruments

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

39.3. Financial risk management objectives

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.4. Market risk

Commodity risk management (price risk)

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

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

Sales function based risk

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

39.5. Foreign exchange risk management

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

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

Foreign currency sensitivity analysis

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.5. Foreign exchange risk management (continued)

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

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

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

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

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

39.6. Interest rate risk management

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

Interest rate sensitivity analysis

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.6. Interest rate risk management (continued)

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

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

39.7. Other price risk

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

39.8. Credit risk management

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

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

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

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

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

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

39.9. Liquidity risk management

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

Liquidity and interest rate tables

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.9. Credit risk management (continued)

Liquidity and interest rate tables (continued)

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

	Weighted average effective interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	Over 5 years	Total
	%	*(in thousands of HRK)*		*(in thousands of HRK)*		*(in thousands of HRK)*	
2010							
Non-interest bearing	-	476,003	116,091	143,140	11,939	19,987	767,160
Financial liabilities at fair value	5.32	-	-	371,100	-	-	371,100
Interest bearing	5.31	45,107	233,405	340,277	768,513	38,761	1,426,063
		521,110	349,496	854,517	780,452	58,748	2,564,323
2009							
Non-interest bearing	-	595,953	123,582	135,111	13,793	55,289	923,728
Financial liabilities at fair value	5.32	1,628	3,106	14,480	343,514	-	362,728
Interest bearing	5.49	13,467	487,049	334,068	606,684	25,127	1,466,395
		611,048	613,737	483,659	963,991	80,416	2,752,851

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

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

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

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.9. Liquidity risk management (continued)

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

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

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

39.10. Fair value of financial instruments

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

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

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

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

At 31 December 2010, the carrying amounts of cash, short-term deposits, receivables, short-term liabilities, accrued expenses, short-term borrowings and other financial instruments approximate their market value due to the short-term nature of those assets and liabilities.

NOTE 39 – FINANCIAL INSTRUMENTS (continued)

39.10. Fair value of financial instruments (continued)

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

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

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

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

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

NOTE 40 – SHARE BASED PAYMENTS

Employee share options

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

Options granted to Podravka d.d. employees

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

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

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

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

Options granted to Belupo d.d. employees

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

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

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

NOTE 40 – SHARE-BASED PAYMENTS (continued)

Employee share options (continued)

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

As at 31 December 2010 new options for 2010 were granted to Management Board President and members which can be exercised upon the expiry of at least one and maximum three years from the year in which they were granted. Based on that, the vesting period for options granted for 2010 begins at 1 January 2011.

The following serial shares under share-based payment arrangements were effective in the current and comparative reporting periods:

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

NOTE 40 – SHARE-BASED PAYMENTS (continued)

Employee share options (continued)

Inputs

	Option series					
	Series 31/12/2004	Series 31/12/2005	Series 31/12/2007	Series 31/12/2008	Series 31/12/2009	Series 31/12/2010
Grant date share price	239.00	318.00	510.00	261.00	296.99	302.68
Exercise price	198.04	296.69	535.25	361.14	238.39	308.81
Expected volatility	29.84%	23.33%	21.11%	25.49%	33.86%	33.84%
Option life	5	5	2.5	2.5 and 3	2.5	3
Risk-free interest rate	5.500%	6.875%	6.813%	6.833%	6.813%	5.625%

Overview of option balances and exercised options

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance at beginning of year	63,900	338.95	89,349	402.44
Granted during the year	27,000	308.81	9,800	238.39
Forfeited during the year	(59,900)	337.47	(35,249)	471.92
Exercised during the year	-	-	-	-
Balance at end of year	**31,000**	**315.56**	**63,900**	**338.95**

Outstanding at the year end

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

As at 31 December 2010, there are 31,000 of outstanding options (2009: 63,900 options). In 2010, 59,900 exercisable options were not exercised (2009: 14,500 options). There were no exercised options in 2010 (2009: 0 options).

The weighted average exercise price of outstanding options at the year end is HRK 315.56 (2009: HRK 338.95).

The weighted average remaining validity of options is 1,002 days at 31 December 2010 (2009: 590 days).

NOTE 41– RELATED PARTY TRANSACTIONS

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

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

NOTE 42 – CONTINGENT LIABILITIES

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

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

NOTE 43 – COMMITMENTS

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

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

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

NOTE 44 – SUBSEQUENT EVENTS

On 4 February 2011, a second tranche of the commercial papers was redeemed,. The total nominal amount of the tranche is HRK 130,000 thousand and was redeemed by use of the syndicated loan described in Note 35.

NOTE 45 – APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

Miroslav Vitković

President of the Management Board