MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN Q1 2016

May 30th, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements for the year ended December 31st, 2015 and with our unaudited consolidated financial statements for the periods ended March 31st, 2016 and March 31st, 2015 and the related notes. Our consolidated financial statements have been prepared in accordance with IFRS. This discussion includes forward-looking statements based on assumptions about our future business that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on our current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from those contained in the forward-looking statements. For most relevant accounting policies please refer to Note 1 of our FY 2015 consolidated statement and the forefront part of the unaudited consolidated quarterly financial statements for the period ended March 31st, 2016.

Important Notice: The Management's discussion and analysis of financial condition and results of operations in this document refers to the Agrokor Group and all of its Restricted and Unrestricted Subsidiaries ("Agrokor" or "Company"). Restricted Subsidiaries are all Agrokor's subsidiaries which form the Agrokor Group excluding Poslovni sistem Mercator d.d. ("Mercator"). Pursuant to the indenture governing our Senior Secured Notes due 2019 and 2020 and our other financial arrangements which are in general in line with the Senior Notes indentures, Mercator has been designated as an Unrestricted Subsidiary of Agrokor. All information regarding Mercator can be found on their IR website http://www.mercatorgroup.si/en/investor-relations/.

Overview

When comparing the results for the Q1 2016 with the same period last year, total sales[1] on a consolidated basis decreased by 0.9% per cent from HRK 10,676.9 million to HRK 10,583.8 million. EBITDA increased by 0.4% per cent, from HRK 811.9 million to 815.3 million, while EBITDA margin[2] increased from 7.6 per cent to 7.7 per cent. Within the Restricted Subsidiaries our total sales showed an increase of 2.5 per cent from HRK 5,960.2 million to HRK 6,106.9 million. EBITDA also improved by 7.6 per cent, from HRK 586.9 million to HRK 631.8 million predominantly due to the strong performance of our Retailing and Wholesale division.

During Q1 2016 our primary focus was on the continuation of the integration of Mercator, predominantly focusing on negotiations with suppliers and SG&A savings as key drivers of synergy realization. We have also continued to focus on increasing and/or maintaining our market shares across both of our divisions through proactive measures in the form of effective marketing strategies, investments in prices and adequate product portfolio management which also included various portfolio extensions. We further continued to focus on cost optimization and efficiency improvement measures coupled with continuous systematization and reorganization of the companies across the Group.

Retailing and Wholesale division contributed 86.1 per cent to the total consolidated sales and posted a decrease of 1.9 per cent compared to the previous year with sales decreasing from HRK 9,297.2 million to HRK 9,116.7 million. Division's EBITDA decreased from HRK 524.6 million to HRK 513.5 million representing a 2.1 per cent decrease with EBITDA margin decreasing from 5.4 per cent to 5.3 per cent, on an unconsolidated basis. The decrease in sales and profitability is driven primarily by weaker performance on the Slovenian market.

Food Manufacturing and Distribution division contributed 10.3 per cent to the total consolidated sales. Sales in this division increased by 4.7 per cent compared to the same period last year, from HRK 1,040.0 million to HRK 1,088.6 million. Division's EBITDA increased from HRK 311.2 million to HRK 314.2 million representing a 1.0 per cent increase. EBITDA margin decreased from 15.0 per cent to 14.3 per cent, on an unconsolidated basis, predominantly due to somewhat softer performance of our Edible Oils and Margarines and Meat and Agriculture businesses.

Other Businesses[3] division contributed 3.4 per cent to the total consolidated sales. Sales in this division posted an increase of 15.0 per cent, from HRK 315.1 million to HRK 362.4 million. EBITDA increased by 146.6 per cent from HRK 11.2 million to HRK 27.6 million with EBITDA margin increasing from 2.0 per cent to 4.3 per cent,

[1] Total sales includes Revenues and Sale of Services
[2] EBITDA margin defined as EBITDA/Total sales
[3] Excluding Agrokor Holding

on an unconsolidated basis. Increase in sales was predominantly driven by the contribution of new businesses acquired in 2015 coupled with better performance of our biogas plants. Increase in EBITDA was predominantly related to improved profitability of our commodity brokerage business.

Recent Developments

In April 2016 Agrokor has signed a €350 million term loan facility with Sberbank. This facility matures in 2022.

Poslovni Sistem Mercator d.d. has signed the agreement with Slovenske železnice d.d. for the purchase of land for the construction of new Mercator logistics and distribution centre in April 2016. The value of the transaction is EUR 17 million. Start of construction works on the facility is anticipated for the second half of 2017, and finalization is expected by the end of 2018. The purpose of construction of the logistics centre is to centralize the warehousing activity, modernize operations and optimize overall operating costs.

The sale processes of other non-core businesses and assets are ongoing, as well as few sale and leaseback processes of real estate properties in Slovenia and Croatia.

Performance of divisions

Retailing and Wholesale

Throughout the first quarter of 2016 our Primary markets have shown modest signs of recovery and economic growth. The retail environment across these markets is slowly following the macroeconomic trends, however the segment was marked by both competitive and deflationary pressures. We have continued adjusting our product assortment and further leveraging our customer-centric retailing capabilities which enabled us to tailor competitive pricing policies and focus further on customer care while offering the best value for money proposition to our faithful customers. In addition, we changed our pricing policy that combined with modified loyalty program scheme should additionally enhance favourable pricing perception amongst our consumers. These measures were coupled with investments in prices with which we have managed to retain our customers and maintain our market shares. We are also focusing on enhancing our e-commerce platform, the “dark store”, which was opened in 2015 as a logistics platform for servicing on-line needs of Zagreb and northern Croatia.

Retailing and Wholesale division in Q1 2016 posted 0.7 per cent decrease in sales on an unconsolidated basis, from HRK 9,691.7 million to HRK 9,622.4 million, with an EBITDA decrease of 2.1 per cent, from HRK 524.6 million to HRK 513.5 million. EBITDA margin decreased by 7.6 bps, from 5.4 per cent to 5.3 per cent. The decrease in sales and profitability is predominantly due to the weaker performance in Slovenia. Within the Restricted Group, our retail operations recorded an increase in unconsolidated sales of 4.1 per cent and EBITDA growth of 10.2 per cent which led to a margin increase from 6.3 per cent in the first quarter of 2015 to 6.7 per cent in the first quarter of 2016. This increase in absolute and relative profitability is the result of the integration of Mercator’s stores in Konzum’s network and synergistic inflows resulting from the combination of Agrokor and Mercator retail.

Croatia

Croatian food retail market has started to recover, on the back of positive macroeconomic developments. However, the retail market is still challenging and marked by certain deflationary pressures. The strategy of repositioning our portfolio of convenience stores is proving to be successful in the current operating environment. In the competitive landscape, top 10 players increased their market share to roughly 80 per cent with Konzum's share cca 30 per cent.

As last year focus was on refurbishment of larger store formats (ex-Mercator), in 2016 focus will be on further enhancement of smaller store formats. Goal is to achieve maximum return from the introduction of self-service bakeries and improvement of Fruit and vegetables department with controlled investments.
In addition, Konzum started the project of refreshing its catalogue for smaller stores with the goal of having more promotions clearly highlighted in its catalogues. Furthermore, it has put more emphasis on its rural stores primarily through a more tailored and targeted assortment.

Konzum is working on further enhancing the e-commerce business, started last year as a logistics platform for servicing on-line needs of Zagreb and northern Croatia.

In Q1 2016 our wholesale experienced growth driven primarily by the HoReCa channel.

Slovenia

Despite signs of general macroeconomic recovery in Slovenia the food retail market conditions in Q1 2016 still remain tough primarily due to deflationary pressures. After years of expansion of large formats, small box stores are again coming to the forefront. The key strategy remains the redesign of the existing retail network (i.e. new concepts at existing locations).

Mercator continued with refurbishment of its stores (two neighbourhood stores were refurbished, as well as two hypermarkets), with the aim to come even closer to customers with a new store concept that is an upgrade to neighborhood stores with a broader and especially deeper offer of fast-moving consumer goods. We have continued with best practice transfer across our Retailing and wholesale division that proved to be effective (i.e. new pricing policy etc.).

The Slovenian market has a relatively high concentration. Top 3 players accounted for roughly 70 per cent with Mercator market share cca 30 per cent.

The wholesale business experienced a slight decrease.

Serbia

After several quarters of negative macroeconomic environment the Serbian economy continued with a positive momentum in Q1, however the retail market remained rather challenging.

Mercator Serbia continued to focus on adjusting in store operations and sharing best practices across the region.
Key focus of the iDEA chain remains fresh assortment, modern and innovative offer and rapid service, and Roda is catering to larger and less frequent purchases, while maintaining its pricing competitiveness with the project "lowest price guaranteed". Both formats are focused on the local offer.

Mercator continued to invest into expansion of its retail area and into refurbishment of existing units. In Q1 2016, 8 new units were launched in Serbia, while 2 were refurbished.

Roda focused on enhancing the new technological feature that allows Super Card users to shop at the retail units by scanning the products and avoiding the lines at the check-out counter.

Our wholesale segment experienced a decrease mainly due to the deteriorated conditions of mom and pap's stores and integration of the different business models between iDEA and Mercator.

The competitive landscape has not changed much with top 10 players still accounting for roughly 35 per cent of the overall market with market share of Mercator Serbia at cca 15 per cent.

Bosnia and Herzegovina

The macroeconomic environment shows signs of recovery however the retail environment remains challenging with deflationary pressures. We continued with the repositioning of our portfolio of convenience stores and introducing of new pricing campaigns.

In Q1 2016 we continued to focus on former Mercator stores by way of adjusting in store operations as well as refurbishing certain flagship stores.

Our wholesale segment experienced a softer performance as a result of limiting the exposure to accounts with weaker credit metrics.

Konzum (Restricted Subsidiary)

As of March 31st, 2016 we had a total of 1,887 retail FMCG stores and 52 wholesale FMCG stores. Out of these, Agrokor (operation in Croatia and B&H) had a total of 986 retail FMCG stores and 27 Velpro wholesale stores, while Mercator (operations in Slovenia, Serbia and Montenegro) had a total of 901 FMCG stores and 25 wholesale stores, owned or operated under operating lease and rental arrangements.

The tables below show Agrokor and Mercator stores by format:

Q1 2016 Ended (March 31, 2016)	Start of Period (December 31, 2015)		Croatia		Bosnia and Herzegovina		Period End	
	Number of Stores	Sales Area (m^2)	Number of Stores	Sales Area (m^2)	Number of Stores	Sales Area (m^2)	Number of Stores	Sales Area (m^2)
Small	730	155.930	543	118.861	175	35.595	718	154.456
Maxi	107	91.175	45	40.481	62	50.694	107	91.175
Super	94	221.734	77	184.011	16	36.635	93	220.646
Hyper	0	0	0	0	0	0	0	0
Kozmo	69	12.707	68	12.447			68	12.447
Total FMCG retail	**1.000**	**481.546**	**733**	**355.800**	**253**	**122.924**	**986**	**478.724**
Velpro	27	57.807	22	49.529	5	8.278	27	57.807
Total FMCG retail and wholesale	**1.027**	**539.353**	**755**	**405.329**	**258**	**131.202**	**1.013**	**536.531**
Tisak	1.103	14.852	986	13.677	0	0	986	13.677

Mercator (Unrestricted Subsidiary)

Q1 2016 Ended (March 31, 2016)	Start of Period (December 31, 2015)		Slovenia	Serbia	Croatia	B&H	Montenegro	Macedonia, Albania and Kosovo Intersport	Period end	
ACTIVITY	**Number of stores**	**Sales Area (m2)**	**Number of stores**	**Number of stores**	**Number of stores**	**Number of stores**	**Number of stores**	**Number of stores**	**Number of stores**	**Sales Area (m2)**
Hypermarkets	59	177.088	22	36			2		60	183.194
Supermarkets	231	162.057	128	86			13		227	159.047
Neighbour stores	618	133.656	321	206			84		611	132.240
Comfort stores	2	3.776	1	1					2	3.776
Mini stores	1	83	1	0					1	83
TOTAL FMCG retail	**911**	**476.660**	**473**	**329**			**99**		**901**	**478.340**
Cash & Carry / VELPRO	25	36.550	14	9			2		25	36.550
Restaurants	10	1.514	8	0					8	1.379
TOTAL FMCG program	**946**	**514.724**	**495**	**338**			**101**		**934**	**516.269**
Technical consumer goods	53	46.478	44	0			1		45	38.470
Clothing program and drugstores	103	44.777	47	13	26	13			99	42.333
Clothing program	87	42.998	40	8	26	9			83	40.554
Drugstores and perfumeries	16	1.779	7	5		4			16	1.779
Intersport	93	42.911	35	12	37	10	2		96	45.076
M holidays	12	242							0	
Other	0								0	
TOTAL specialised programs	**261**	**134.408**	**126**	**25**	**63**	**23**	**3**	**0**	**240**	**125.879**
TOTAL retail units under management	**1.207**	**649.132**	**621**	**363**	**63**	**23**	**104**	**0**	**1.174**	**642.148**
Franchise stores	229	35.610	222					7	229	35.767
TOTAL	**1.436**	**684.742**	**843**	**363**	**63**	**23**	**104**	**7**	**1.403**	**677.915**

Food Manufacturing and Distribution

Food Manufacturing and Distribution division recorded an increase of unconsolidated sales of 5.5 per cent, from HRK 2,078.0 million to HRK 2,192.3 million. EBITDA increased by 1.0 per cent, from HRK 311.2 million to HRK 314.2 million with EBITDA margin decreasing by 64.5 bps from 15.0 per cent to 14.3 per cent. EBITDA margin was lower due to somewhat softer performance of our Edible Oils and Margarines and Meat and Agriculture businesses.

Recent Macroeconomic Developments

Croatia

Indicators in Q1 2016 suggest that GDP growth of cca 2.4% is expected and driven primarily by domestic demand. Stronger growth rates of the imports of goods reduce the positive contribution of the growth of exports of goods and services. Continued growth in personal consumption was based on the increase in retail trade, which reflects mildly-positive consumer expectations. The recovery of personal consumption was supported by mild employment growth and nominal salaries, which paired with absence of inflation and reduced interest rates on loans provides for the alleviation of the burden on the personal income of consumers.

Slovenia

Slovenia’s GDP is expected to grow by 1.9 per cent in 2016, in comparison to 2.9 per cent in 2015. In the first quarter of 2016 exports remained the key factor of economic recovery. Export growth was mainly fueled by international demand, and further improvement of competitiveness. With strong growth in employment and higher average gross salary, the growth of household disposable income increased as well, resulting in recovery of private spending. Investment growth slowed down due to another slump in construction investment. Prices in 2016 will remain, on average, at a similar level, mostly due to the effect of lower oil prices.

Serbia

Positive trends accelerated in Q1 as GDP performed remarkably, growing 3.5% y-o-y and 1.7% in s-a terms on the basis of much better industrial and construction performance, as well as much stronger net exports growth.

In addition, growth of both industrial production and exports is broad based, with growth being recorded in almost entire set of manufacturing branches. Exports of goods increased by 13.4% y-o-y and imports of goods grew by 1.5%. In Q1 2016 net FDI inflow was EUR 330 mln, mainly in tradable sectors.

In the first three months of 2016, formal employment in public sector continued to decline, while on the other hand, recovery of private sector continued. Low core inflation indicates fundamental disinflationary pressures, coming mainly from low aggregate demand and low imported inflation.

Bosnia and Herzegovina

Although the economy is recovering after catastrophic floods, boosted by strong domestic and solid external demand, in Q1 2016 it is still vulnerable, as external and internal imbalances remain high. Industrial activity and exports have been gathering momentum and, together with the decline in fuel prices, boost incomes and consumption. Meanwhile, deflation has been imported through the currency board arrangement. The expected acceleration of growth in coming years to a 3+% pace cannot be sustained without significant IMF financing and FDI inflows, as the economy structurally depends on imports.

Certain Factors Affecting Our Financial Condition and Results of Operations

Our results of operations for the periods under review have been primarily affected by:

Macroeconomic factors

Macroeconomic conditions in the countries in which we operate may have a significant effect on our results of operations. The food industry is generally impacted less by economic downturns than other industries that rely on a greater amount of discretionary spending. However, in periods of recession, when the GDP declines in any or all of the markets in which we operate, customers may reduce their consumption of certain products, reducing our sales volumes or switch from premium brands to lower cost brands and private label products, which may reduce the average prices we can achieve. In such an economic environment, we may also need to reduce our prices (including through price based promotions) in response to increased competition.

Raw material prices

Our key raw materials include wheat and corn (for animal feed), beef, pork and other meats (for our fresh and processed meat industry), milk and butter (for the production of ice cream and cheese), sunflower and other oil seeds (for the production of margarine and vegetable oils), as well as plastic bottle pre-forms and other packaging materials.

The Food Manufacturing and Distribution division is affected by the prices of the raw materials used. The Retailing and Wholesale division is also affected by the prices of raw materials as it affects the costs of goods sold. Our strategy is to source the majority of our requirements for key raw materials (except for packaging material) internally through production and contract farming and to obtain the rest through the commodity markets.

New store openings

In the Retailing and Wholesale division, we have expanded our market coverage by opening new stores in the countries in which we operate. While new store openings increase our sales, we incur high fixed costs during the construction and/or refurbishment period at a time when the store is generating no sales. In addition, following a store opening, there is a period of up to three years, depending on the store format, during which sales have not reached their maturity potential.

Exchange rate fluctuations

We are subject to currency transaction risks when our sales and costs are denominated in different currencies. For example, our sales have principally been denominated in Kuna, our currency of account, whereas our debt and operating expenses have been denominated both in Kuna and in a number of foreign currencies, principally Euro, in which a greater proportion of our indebtedness is denominated. We attempt to manage this currency transaction risk principally by matching sales and costs in the same currency. However, our ability to match our euro denominated costs; particularly financing costs, in this manner is limited.

In addition, we are subject to currency translation risk in that the results of each of our subsidiaries are reported in the operating currency of the jurisdiction in which it primarily operates. These amounts, if not reported in Croatian Kuna, are then translated into Kuna for inclusion in our consolidated financial statements. Accordingly, changes in foreign exchange rates may impact the contribution of our non-Croatian subsidiaries to our financial results in a manner different to the changes in the results of those subsidiaries in their local currencies. The principal currencies of account of our subsidiaries include Kuna, Euro, Convertible Marks (which are pegged to the Euro), Serbian Dinars and Forint.

Other factors

Other factors that affected our results of operations for the period under review include among others:

Economies of scale achieved in past years - As our business has grown, we have achieved certain economies of scale as a result of our increased size. Our greater purchasing power allows us to negotiate more favorable prices with suppliers. In addition, as we are filling out our geographic footprint in the region, we are achieving increasing economies of scale in terms of transportation, distribution and sales and marketing.

Product range expansion - We have also sought to expand the range of products that we offer. For example, in Retailing and Wholesale, we have extended our private labels portfolio both in terms of number of SKU’s as well as in terms of private label categories in order to capture the segment of price sensitive consumers and to meet changing customer’s preferences driven to a large extent by decreasing purchasing power.

Seasonality - Sales from certain of our products and brokerage activities, including ice cream, mineral water and agricultural products are seasonal, resulting in uneven cash flows and working capital requirements, as well as the need to adjust production in anticipation of fluctuating demand. In addition, certain products and brokerage activities, such as ice cream, mineral water and agricultural products, are also dependent on weather conditions. As a result, our sales do not occur evenly throughout the year. In addition, to a certain extent, some of our businesses, like ice cream and mineral water, are dependent on the success of the touristic season, which has a seasonal character and whose success directly impacts our profitability.

Results of Operations

Profit and Loss Account

The following table presents our results of operations for the periods ended March 31st, 2016 and March 31st, 2015;

(HRK million)	**31.03.2015.**	**% of sales**	**31.03.2016.**	**% of sales**	**2016/2015**
CONTINUING OPERATIONS:					
Sales Revenue	10.291,3	96,4%	10.046,8	94,9%	-2,4%
Sales of services	385,6	3,6%	537,0	5,1%	39,2%
Total sales	**10.676,9**	**100,0%**	**10.583,8**	**100,0%**	**-0,9%**
Other income	45,6	0,4%	38,0	0,4%	-16,6%
Change in inventories of finished goods and works in progress	141,4	1,3%	80,7	0,8%	-42,9%
Cost of material and goods sold	-7.708,7	72,2%	-7.525,9	71,1%	-2,4%
Cost of services	-885,9	8,3%	-933,6	8,8%	5,4%
Staff cost	-1.139,8	10,7%	-1.130,0	10,7%	-0,9%
Depreciation and amortization	-388,5	3,6%	-394,2	3,7%	1,5%
Other costs	-318,0	3,0%	-298,0	2,8%	-6,3%
Excess of fair value of net assets over the cost of aquisition, net of writen-off goodwill					
Sale of properties, net	15,2	-0,1%	-4,1	0,0%	n/a
	-10.238,8	**95,9%**	**-10.167,1**	**96,1%**	**-0,7%**
Financial income	263,1	2,5%	581,9	5,5%	121,2%
Financial expense	-714,0	6,7%	-782,0	7,4%	9,5%
	-450,9	**4,2%**	**-200,1**	**1,9%**	**-55,6%**
Share of gain/loss of associates					
Profit before tax	**-12,8**	**-0,1%**	**216,6**	**2,0%**	**n/a**
Taxation	-46,6	0,4%	-47,9	0,5%	2,9%
Profit/(loss) for the year	**-59,4**	**0,6%**	**168,6**	**1,6%**	**n/a**
DISCONTINUED OPERATIONS:					
Loss after tax for the year from discontinued operations	0,0	0,0%	-1,0	0,0%	n/a
PROFIT/(LOSS) FOR THE YEAR	**-59,4**	**0,6%**	**167,6**	**1,6%**	**n/a**
Attributable to					
Equity holders of the parent	-83,8	0,8%	162,0	1,5%	n/a
Minority interest	24,4	-0,2%	5,6	0,1%	-76,8%

Segmental Analysis

The table below provides information on results of our business segments for the periods ended on March 31st, 2016 and March 31st, 2015:

Business operating segments

(HRK million)	**Agrokor Holding**	**Food Manufacturing and Distribution**	**Retailing and Wholesale**	**Other Businesses**	**Intersegment sales**	**Consolidated**
31.03.2016.						
Sales to external customers	16,1	1.088,6	9.116,7	362,4		
Intersegmental sales	66,1	1.103,7	505,7	286,4	(1.961,9)	
Total sales	**82,2**	**2.192,3**	**9.622,4**	**648,7**	**(1.961,9)**	**10.583,8**
Operating profit	**(54,5)**	**206,6**	**246,9**	**22,0**		**421,0**
Operating profit margin (%)	-	9,4%	2,6%	3,4%		
Depreciation	14,4	107,6	266,6	5,6		394,2
EBITDA	(40,0)	314,2	513,5	27,6		815,3
31.03.2015.						
Sales to external customers	24,6	1.040,0	9.297,2	315,1		
Intersegmental sales	68,1	1.038,0	394,5	252,5	(1.753,1)	
Total sales	**92,7**	**2.078,0**	**9.691,7**	**567,6**	**(1.753,1)**	**10.676,9**
Operating profit	**(37,5)**	**204,3**	**251,2**	**5,4**		**423,4**
Operating profit margin (%)	-	9,8%	2,6%	1,0%		
Depreciation	2,4	106,9	273,4	5,8		388,5
EBITDA	(35,1)	311,2	524,6	11,2		811,9

Comparison of the Periods Ended March 31st, 2016 and March 31st, 2015

Sales revenue

Sales revenue decreased by HRK 244.5 million, or 2.4 per cent, from HRK 10,291.3 million in the quarter ended March 31st, 2015 to HRK 10,046.8 million in the quarter ended March 31st, 2016. The decrease in sales revenue was primarily the result of lower sales in our Retailing and Wholesale division driven by weaker performance on the Slovenian market. As a percentage of total sales, sales revenue decreased from 96.4 per cent to 94.9 per cent.

Sales of services

Sales of services increased by HRK 151.3 million, or 39.2 per cent, from HRK 385.6 million in the quarter ended March 31st, 2015 to HRK 537.0 million in the quarter ended March 31st, 2016. As a percentage of total sales, sales of services increased from 3.6 per cent to 5.1 per cent.

Other income

Other income decreased by HRK 7.6 million, or 16.6 per cent, from HRK 45.6 million in the quarter ended March 31st, 2015 to HRK 38.0 million in the quarter ended March 31st, 2016. As a percentage of total sales, other income remained the same at 0.4 per cent.

Total sales

Sales decreased by HRK 93.2 million, or 0.9 per cent, from HRK 10,676.9 million in the quarter ended March 31st, 2015 to HRK 10,583.8 million in the quarter ended March 31st, 2016. This decrease was primarily driven by the decrease in sales revenue of our Retailing and Wholesale division.

Change in inventories of finished goods and works in progress

Change in inventories of unfinished and finished goods decreased by HRK 60.7 million, from HRK 141.4 million in the quarter ended March 31st, 2015 to HRK 80.7 million in the quarter ended March 31st, 2016, principally due to changes in the composition of inventories of finished goods and works in progress.

Cost of materials and goods sold

Cost of materials and goods sold decreased by HRK 182,8 million or 2.4 per cent from HRK 7,708.7 million in the quarter ended March 31st, 2015 to HRK 7,525.9 million in the quarter ended March 31st, 2016. As a percentage of total sales, cost of materials and goods sold decreased from 72.2 per cent to 71.1 per cent. The decrease is predominantly the result of lower sales.

Cost of services

Cost of services increased by HRK 47.7 million, or 5.4 per cent, from HRK 885.9 million in the quarter ended March 31st, 2015 to HRK 933.6 million in the quarter ended March 31st, 2016. As a percentage of total sales, cost of services increased from 8.3 per cent to 8.8 per cent.

Staff costs

Staff costs decreased by HRK 9.8 million, or 0.9 per cent, from HRK 1,139.8 million in the quarter ended March 31st, 2015 to HRK 1,130.0 million in the quarter ended March 31st, 2016. As a percentage of total sales, staff costs remained stable at 10.7 per cent.

Depreciation and amortization

Depreciation and amortization increased by HRK 5.7 million, or 1.5 per cent, from HRK 388.5 million in the quarter ended March 31st, 2015 to HRK 394.2 million in the quarter ended March 31st, 2016. As a percentage of total sales, depreciation and amortization increased from 3.6 per cent to 3.7 per cent.

Other costs

Other costs decreased by HRK 20.0 million, or 6.3 per cent, from HRK 318.0 million in the quarter ended March 31st, 2015 to HRK 298.0 million in the quarter ended March 31st, 2016. As a percentage of total sales, other costs decreased from 3.0 per cent to 2.8 per cent.

Sale of properties, net

Net sale of properties decreased by HRK 19.3 million, from HRK 15.2 million in the quarter ended March 31st, 2015 to HRK negative 4.1 million in the quarter ended March 31st, 2016.

Financial income

Financial income increased by HRK 318.9 million, or 121.2 per cent, from HRK 263.1 million in the quarter ended March 31st, 2015 to HRK 581.9 million in the quarter ended March 31st, 2016 principally due to higher foreign exchange gains. As a percentage of total sales, financial income increased from 2.5 per cent to 5.5 per cent.

Financial expense

Financial expense increased by HRK 68.0 million, or 9.5 per cent, from HRK 714.0 million in the quarter ended March 31st, 2015 to HRK 782.0 million in the quarter ended March 31st, 2016. The increase was principally due to the increase of other financial expenses (forward and swap). As a percentage of total sales, financial expense increased from 6.7 per cent of total consolidated sales to 7.4 per cent.

Profit/loss before tax from continuing operations

As a result of the foregoing items, income before taxation increased by HRK 229.4 million, from a loss of HRK 12.8 million in the quarter ended March 31st, 2015 to HRK 216.6 million in the quarter ended March 31st, 2016. As a percentage of total sales, profit/loss before tax from continuing operations increased from negative 0.1 per cent to 2.0 per cent.

Taxation

Taxation increased by HRK 1.4 million, or 2.9 per cent, from HRK 46.6 million in the quarter ended March 31st, 2015 to HRK 47.9 million in the quarter ended March 31st, 2016. As a percentage of total sales, taxation increased from 0.4 per cent to 0.5 per cent. Corporate taxation is based on the accounting profit for the year adjusted for permanent and temporary differences between taxable and accounting income.

Profit/loss for the year from continuing operations

Due to the factors discussed above, net profit increased by HRK 227.0 million, from a loss of HRK 59.4 million in the quarter ended March 31st, 2015 to a profit of HRK 167.6 million in the quarter ended March 31st, 2016. Net profit attributable to equity holders increased by HRK 245.7 million, from a loss of HRK 83.8 million to HRK 162.0 million. The non-controlling interest decreased by HRK 18.7 million, from HRK 24.4 million to HRK 5.6 million.

Liquidity and Capital Resources

The main sources of the Group's liquidity are cash and cash equivalents generated in the regular course of business and short-term indebtedness with banks and financial institutions.

Cash and cash equivalents as of March 31st, 2016 amounted to HRK 2,354.1 million, compared to HRK 2,608.6 million as of December 31st, 2015.

Net cash used in investment activities amounted to HRK 245.3 million and reflects increase in property, plant and equipment and intangible assets as well as increase in acquisition of subsidiaries and other short term financial investments.

Net cash generated from financial activities during the three month period reflects changes in credit lines that were available to the Group. Debt as of March 31st, 2016 amounted to HRK 25,501.4 million (on December 31st, 2015 it amounted to HRK 25,844.0 million) and interest rates were in the range of 2.5 per cent to 10.5 per cent.

The table below presents a summary of our cash flows for the period ended March 31st, 2016 and March 31st, 2015:

Cash flows	31.03.2015.	31.03.2016.
	(HRK million)	
Net cash flows from operating activities before changes in working capital	**822,6**	**827,4**
Interest paid	(421,2)	(442,5)
Changes in working capital	(951,3)	105,2
Net cash provided by/(used in) operating activities	**(882,0)**	**333,3**
Capex	(176,9)	(239,0)
Acquisitions of subsidiaries, net of cash acquired	(386,1)	(1,3)
Net cash used in investing activities	**(779,3)**	**(245,3)**
Net cash from financing activities	**1.503,9**	**(342,6)**
Net increase/(decrease) in cash and cash equivalents	**(157,4)**	**(254,6)**

Changes in working capital

At March 31st, 2016 changes in working capital were positive and amounted to HRK 105.2 million compared to the negative contribution of HRK (951.3) million in the corresponding period last year. The main driver of these positive changes in working capital was the decrease of accounts receivables couples with an increase in accounts payable.

Capital expenditure

Capital expenditures increased by HRK 62.0 million, or 35.1 per cent, from HRK 176.9 million to HRK 239.0 million.

Indebtedness

The following table summarizes our indebtedness at December 31st, 2015 and March 31st, 2016:

Borrowings (HRK million)	**31.12.2015.**	**31.03.2016.**
Long-term borrowings		
-Bank loans	16.319,8	16.077,7
-Bonds	6.808,5	6.639,6
-Non-bank loans	30,4	53,9
-Finance leases	1.255,1	1.199,2
Total long-term borrowings	**24.413,7**	**23.970,4**
Total current portion of long-term borrowings	(4.732,1)	(4.630,5)
Short-term borrowings		
-Bank loans	1.126,9	1.210,1
-Non-bank loans	303,4	321,0
Total short-term borrowings	**1.430,3**	**1.531,0**
Total borrowings	**25.844,0**	**25.501,4**

The table below summarizes the maturity profile of our long-term borrowings at December 31st, 2015 and March 31st, 2016:

Maturity of Long-term debt (HRK million)	**31.12.2015**	**31.3.2016**
2016	4.732,1	4.390,7
2017	3.593,2	3.621,3
2018	966,4	937,8
2019	3.544,4	3.553,0
2020	6.130,5	5.955,0
2021	5.447,1	5.255,6
2022 and later		256,9
Total	**24.413,7**	**23.970,3**