MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN 3Q 2010

November 30, 2010

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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 31, 2009 and with our unaudited consolidated results for the periods ended September 30, 2010 and September 30, 2009 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 2009 consolidated financial statements and the forefront part of the unaudited consolidated quarterly financial statements for the period ended September 30, 2010.

Overview

We have delivered sound performance throughout the first nine months of 2010 through the implementation of our profitability focused strategy and by adjusting on time to the unfavourable economic environment and changing customer trends. Our revenues remained stable while the EBITDA grew driven by operating profitability enhancement in both of our divisions. Cost optimization measures were implemented both at the Group level, as well as at each subsidiary in order to maximize efficiency throughout the value chain. On the other side, we undertook proactive measures in the form of effective marketing strategies, price investments and product portfolio extensions that proved as a right value proposition to our customers and resulted in market share increases in most of our businesses. Our business model proved its resilience in the challenging economic environment and we believe we have created a solid operating platform for the future. Although the challenges remain on all of our Primary markets, some macroeconomic indicators are showing signs of the reversal of negative trends that have been prevailing throughout the second half of 2009 and 2010.

On a consolidated basis our revenues amounted to HRK 19,712.5, representing a decrease of 0.1 per cent. The slight decrease was mainly the result of the depreciation of Serbian dinar and a decrease in our crop husbandry activities due to the volatility of commodity prices. Group EBITDA grew 10.0 per cent implying an EBITDA margin of 8.8 per cent, which represents an increase of 80 basis points relative to the same period of 2009.

Our Retailing and Wholesale division grew by 1.9 per cent on a consolidated basis, despite falling consumption on all of our Primary markets. The growth was mostly driven by our Serbian, Bosnian and Herzegovinian operations and our Croatian kiosk retailer Tisak. We managed to increase market shares on all of our Primary markets backed by our customer centric retailing strategy which enabled effective category management and allowed us to adequately position our marketing initiatives aimed at increasing the customer base while offering superior quality and customer service. Retailing and Wholesale EBITDA grew by 13.7 per cent as a result of efficiency improvement measures, notably in the SG&A, and better terms from suppliers. Serbian operations reached the necessary scale and have turned EBITDA positive for the first time.

Food Manufacturing and Distribution division recorded a sales decrease of 3.6 per cent while EBITDA grew by 12.1 per cent. The decrease in sales was mainly due to Serbian dinar depreciation, lower activity in crop husbandry, bad weather conditions which led to lower performance of our ice cream and frozen food segment and lower sales in the Edible Oils and Margarines division due to fall in edible oil prices. Strong enhancement in the operating profitability was mostly the result of cost optimisation measures in all of the subdivisions but also due to the increased operating efficiency coming from the previous years' investments which started to pay off.

The strategic decision to lower the volume of our commodity brokerage business in order to limit the risk exposure to price volatility resulted in a 12.8 per cent decrease in consolidated sales in the Other businesses segment.

Key highlights of Group Results and Strategy

Enhanced profitability

Continuous implementation of cost optimization programs and exploration of internal synergies among our portfolio companies combined with positive effects from previous years' investments have contributed to an increase in EBITDA margin to 8.8 per cent during the first nine months of 2010 compared to 8.0 per cent for the corresponding period of 2009, notwithstanding the challenging economic environment on all of our Primary markets. Cost cutting measures were implemented both at the Group level, as well as at each subsidiary in order to maximize efficiency throughout the value chain and create a solid base for future performance.

Stable Group sales evolution (-0.1 per cent at actual exchange rates, +1.2 per cent at constant rates)

Our consolidated sales remained flat decreasing only slightly by 0.1 per cent at actual exchange rates amounting to 12,200.1 million despite unfavorable economic environment that prevailed in the first nine months of 2009 on all of our Primary markets. The main contributor to growth was the Retailing and Wholesale division while the negative impact came mostly from the depreciation of Serbian dinar. At constant exchange rates our sales grew by 1.2 per cent.

Increasing market shares across the region

We managed to increase market shares in all of our Primary markets despite an overall fall in consumption and resulting changes in consumer behaviour. By adjusting on time our strategy, having an effective marketing approach and extending our product portfolio we managed to keep or even increase market shares in both divisions with a continued focus on customer care, quality and innovation.

Further balance sheet strengthening

Building further on our strategic decision to reduce our reliance on short term financing, after successful issuance of EUR 400 mn Senior Unsecured Notes in December 2009, we successfully refinanced our 2006 Senior Facility Agreement by signing new EUR 352 mn Senior Facility Agreement in June this year. By closing these two transactions, we significantly improved our debt maturity profile and improved our liquidity position by bringing our long term debt to more than 70 per cent of our total indebtedness.

Disciplined capex policy

We reduced our capital expenditure to HRK 967.3 million during the first nine months of 2010, a decrease of 25.7 per cent compared with HRK 1,302.4 million for the corresponding period of 2009 mainly as a result of completion of a large capital investment cycle in our Food Manufacturing and Distribution division which led to lower investment requirements, as well as from reducing the rate of expansion of our retail network.

Recent Developments

Since November 1st, 2010 the crisis tax in Croatia of 4 per cent on net salaries over HRK 6,000 has been abolished what should bring a positive effect to the still quite depressed consumption. Positive news came from the Cratian Bureau of Statistics which estimates a growth of 0.2 per cent in Croatian GDP in Q3 2010.

In October, our Croatian kiosk retail company Tisak acquired the remaining 50 per cent stake in Slobodna Dalmacija Trgovina which is operating in the same business as Tisak but predominately covering the Dalmatia. The acquisition should be a great strategic fit for Tisak which is currently holding a 100 per cent stake. The price paid was HRK 135 mn.

We are currently considering divestment of our billboard advertising company Media d.o.o and we are in the process of negotiation with potential buyers.

We have agreed principal terms and conditions with IFC in respect of refinancing our Frikom loan which is due in January 2011. Expected closing of the agreement is by the first half of January 2011.

Performance of divisions

Retailing and Wholesale

Although some signs of positive macroeconomic developments can be read from the markets that we operate on, the first 9 months of 2010 were marked by a challenging economic environment on all of our Primary markets which was most notably seen in the decrease of consumption and a fall in the purchasing power of the customers. Price sensitivity entailed the market players to engage in strong promotional activities which led to a decrease in prices and stronger propensity to buy private label products.

By recognizing on time the upcoming changing market trends, we managed to implement an efficient marketing strategy through promotions but also through a superior customer care. Our customer-centric retailing gave us a competitive advantage over our customers and enabled us to track and assess customer behaviour and introduce well targeted category management to extract maximum value. Special focus was put on customer care with initiatives such as “We are here for you” which are guidebooks for our employees on how to increase customer satisfaction. We once again outperformed the market, being one of the rare players with increasing market shares on all of our Primary markets. What is more important, we managed to increase our operating profitability by offsetting our price investments with savings in the SG&A, most notably coming from the optimization and improvement in the efficiency of the logistics and distribution system (including the reorganization and optimization of transport routes, the commissioning and delivery of goods, as well as by consolidating a number of dislocated warehouses into the central warehouse, optimization of inventory management, and negotiation of better purchasing conditions). The opening of “Konzum Academy” which is to be used as an educational and training center for all of the employees of the Group retail operations was a breakthrough initiative which should serve as a camp for recognizing and developing future management talent.

Our strategy can be summarized in the following actions:

- investing in price perception and effective marketing and promotional activities like “every day low price” and daily, weekly and monthly offerings through promotional catalogues in cooperation with our suppliers;
- adjusting product assortment with emphasis on strengthening and expanding our private label offerings and on the availability of the fresh assortment as our key competitive advantage;
- further focusing on customer care, innovative services and loyalty card program extension;
- further implementing cost optimization programs.

The measures resulted in an EBITDA margin of our Retailing and Wholesale segment increased from 4.8 per cent to 5.3 per cent, while the sales grew by 1.9 per cent despite a strong depreciation of Serbian dinar.

Croatia

Konzum recorded another consecutive quarter of a market share increase which is now at 27.4 per cent[1]. The Croatian retail market was under the pressure of lowering consumption, rising unemployment and additional crisis tax burden that has just recently been abolished in full which made the market extremely competitive on pricing. Konzum engaged in constant promotions and price investments such as “Happy hour” in order to capture a wider customer base which increased by 5.34 per cent. The investment in prices that we undertook were partially transferred to our suppliers, however we recorded an in-store deflation of 2.14 per cent. The price investments were offset by a decrease in the SG&A costs (notably staff optimization, energy and working material savings etc.) and thus we managed to keep the operating profitability at a stable level. Our loyalty card program proved as a good tool for tracking the consumer behavior but also offering additional value to our customers. We have also introduced MultiPlus loyalty program together with our partners such as Zagrebacka banka and T-Mobile and others which have broadened our customer base. Konzum as well started to implement a new ERP (Enterprise Resource planning) system which should be finalized in the time span of two years and should bring additional operational efficiency increase.

The performance of our wholesale business was negatively affected by lower sales to smaller retailers which had difficulties in adjusting to the current negative economic situation and by lower sales to gas stations, whose sales peaked in first half of 2009 due to the recently abolished law which prohibited retail stores to operate on Sundays.

Serbia

Our Serbian retail operations performed well both in terms of sales and EBITDA which has become positive for the first time despite the depreciation of Serbian dinar of 9.1 per cent. Through strong organic growth and store openings we were the fastest growing retail chain on the Serbian market with an increase in market share of 160 basis points [2]. Serbian retail market was characterized by low consumption and low inflation, however the country’s economy started recovering posting positive GDP growth rates and the retail sales started to increase from August. Although inflation started to take pace in Q3, we experienced in-store deflation of 1.85 per cent due to constant strong promotional activities and price investments which were transferred to a large degree on our suppliers. Private label sales as a percentage of total sales continued to increase, which had a positive effect on our gross margins. Additionally, better terms with our suppliers added to the improved profitability together with the cost optimization programs both in stores and on the headquarter level. We have also been working on enhancing the iDEA brand through stronger presence on the television, marketing activities with our suppliers and through organizing charities. Our Wholesale delivered growth despite a cautious approach to choosing its customers, while initiatives have been undertaken in the logistics such as implementation of new warehouse IT systems and automatic ordering systems which were introduced in Q2.

An initiative has been undertaken in the project “Plus-markets”, a project that is successful in Croatia, where chosen small retailers will be using know how of iDEA in operating its stores while iDEA will secure placement of its goods to these leading to increased sales.

1 Gfk Consumer Tracking Croatian retail market shares 3Q 2010

2 According to GfK Belgrade Household Panel

Bosnia and Herzegovina

The Bosnian and Herzegovinian retail market in Q3 was characterized by downward pressures on prices which resulted in a notable contraction in the size of the average consumer basket. Despite the unfavourable Bosnian and Herzegovinian economic environment, Konzum Sarajevo managed to increase sales revenues by 12.4 per cent y-o-y in 3Q 2010. EBITDA was highly influenced by the burden of the investments in prices. Konzum Sarajevo increased the number of customers by 24.9 per cent due to continuous store openings, constant store promotions and strong marketing activities.

Store breakdown on our Primary markets

During the first half of 2010 we remained focused on strengthening our retail presence across the region especially on the markets of Serbia and Bosnia and Herzegovina. On September 30th, 2010 we had a total of 929 stores (including 27 Velpro wholesale stores) which we own or operate under operating leases and rental arrangements.

The tables below show new retail store openings and closings by country and by format:

Q3 2010 Ended September 30, 2010	Start of Period		Store Openings		Store Closings		Format Change	Period End	
	Number of Stores	Sales Area (m^2)	Number of Stores	Sales Area (m^2)	Number of Stores	Sales Area (m^2)	Sales Area (m^2)	Number of Stores	Sales Area (m^2)
KONZUM (Croatia)	628	220,281	59	21,820	(25)	(6,850)	1,289	662	236,540
KONZUM Sarajevo (Bosnia and Herzegovina) [1]	115	56,068	13	6,345	(3)	(813)	0	125	61,600
IDEA (Serbia)	97	40,851	19	8,486	(1)	(203)	(56)	115	49,078
Group Total	**840**	**317,200**	**91**	**36,651**	**(29)**	**(7,866)**	**1,233**	**902**	**347,218**
[1] included Kozmo (B&H)	1	113	0	0	(1)	(113)	0	0	0

Of total number of stores at the period end in Konzum (HR) we had opened 12 seasonal stores with sales area of 2,512 m^2.

Q3 2010 Ended September 30, 2010	Start of Period			Croatia		Bosnia and Herzegovina		Serbia		Period End		
	Number of Stores	Sales Area (m^2)	Share	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)	Share
Small	710	124,232	39.2%	584	98,401	81	14,251	96	20,083	761	132,735	38.2%
Maxi	75	61,036	19.2%	32	27,386	36	28,778	12	9,448	80	65,612	18.9%
Super	53	125,184	39.5%	46	110,753	8	18,571	6	12,912	60	142,236	41.0%
Hyper	1	6,635	2.1%					1	6,635	1	6,635	1.9%
Kozmo	1	113	0.04%			0	0			0	0	0.0%
Total retail	840	317,200	100.0%	662	236,540	125	61,600	115	49,078	902	347,218	100.0%
Velpro	25	100,375		18	46,294	2	6,980	7	52,094	27	105,368	
Total retail and wholesale	**865**	**417,575**		**680**	**282,834**	**127**	**68,580**	**122**	**101,172**	**929**	**452,586**	
Tisak [1]	1,319	14,899		1,351	15,788					1,351	15,788	

Food Manufacturing and Distribution

The Food Manufacturing and Distribution division experienced sales decline of 3.6 per cent on consolidated basis. EBITDA in this segment grew by 12.1 per cent.

Although the division was challenged by customer price sensitivity and stronger orientation towards cheaper/low quality products, we managed to increase our market shares through effective marketing strategies, promotions and innovations in our A-brands portfolio and also through adjusting our product assortment by introduction of B-brands in some of our businesses such as “Sky” carbonated juices brand or “Goda” mineral water in the Water and Beverages division. The volumes sold increased in most of the businesses, however the change in the structure of sales had a negative impact on the amount of sales. The decrease in top line was mostly due to the depreciation of Serbian dinar, bad weather conditions which led to lower sales in the Ice Cream and Frozen Food division, fall in edible oil prices that affected the Edible Oils and Margarines division and a lower activity in the crop husbandry which was a strategic decision due to price volatility.

We experienced a significant growth in operating profitability with the main driver being the Meat and Agriculture division. The strong progress in profitability evolution has been experienced especially in our fresh and processed meat industry where the strong investment cycle from previous periods has started to show effects while the agricultural companies experienced an upside from the operating processes enhancement and increase in commodity prices. Additionally, the cost saving programs were implemented in all of the companies, mostly in the supply chain and production process optimizations.

We have placed a lot of emphasis on strong marketing activities of our A branded products and have managed to keep there level of sales stable through communicating the superiority of their quality without decreasing their prices.

Recent Macroeconomic Developments

The unfavourable economic conditions continued to affect strongly the real economies in our Primary markets in the first half of 2010 however we have seen positive trends arising in all countries, with Serbia taking the lead in recovery:

Croatia

After a contraction of 2.5 per cent y-o-y in the first half of 2010, improving trends have occurred in Q3 2010. Negative trends in personal consumption have signg some positive signs of reversal with retail trade expanding by 0,7 per cent y-o-y in real terms in July, which was the first increase in 24 months and the tourist season recorded a good result. These trends have also been positively affected by the abolishment of the crisis tax rate of 2 per cent on salaries between 3.000 and 6.000 HRK. A further increase is expected and should gain strength in 2011. Inflationary pressures are muted, with headline inflation of just 1.0 per cent y-o-y in August. The core consumer price inflation has remained negative for eight months in a row, recording -1.2 per cent y-o-y in August. Industrial production remained negative, -0.7 per cent y-o-y in working-day-adjusted terms in August. The fall of GDP is at the end, although the extent of recovery remains uncertain at this point. After a temporary summer relief on the labour market due to seasonal employment, the unemployment rate has started to rise again since the end of August. The average gross wage has gradually declined over the last year. In August 2010, it fell by 1.4 per cent y-o-y in nominal terms and 2.4 per cent in real terms. Changes in wage taxation introduced in July 2010 have let to a somewhat lower average tax burden. Therefore, the average take-home wage has been less affected by downward pressures than the average gross wage. In August 2010, the average net wage was 0.3 per cent higher y-o-y in nominal terms and 0.7 per cent lower in real terms. In 1H 2010 foreign debt rose just EUR 300mn, and the gross external debt is projected to increase by only 2.5 pp GDP y-o-y to 100.8 per cent as of end-2010. The basic balance (current account net FDI) is expected to narrow to -0.7 per cent of GDP, which would augur well for near-term EUR/HRK stability. Monetary aggregates continue to recover. The revival of credit activity that started in the 2Q 2010 accelerated during the summer months. August recorded a 4.7 per cent y-o-y increase in total credits. We also had some positive news coming from the tourist season with data for first 9 months showing increase in overnights of 2.7 per cent with the rise predominantly coming from foreign tourists.

Source: Croatian National Bank; Central Bureau of Statistics; Unicredit Research Report; The Institute of Economics, Zagreb

Serbia

Domestic demand showed signs of recovery, especially from the anticipated wage hikes in the public sector, and therefore caused the growth outlook to improve. There is a risk to the inflation outlook due to domestic demand trends and the ongoing pass-through impact on inflation from the weak currency, to which the National Bank has reacted with tighter monetary policy. The EUR/RSD rate is exposed to upside risk, given the wider current account deficit, rising foreign debt and foreign debt service obligations, and inflationary pressures. In 2Q 2010 the economy grew 2 per cent y-o-y, with seasonally adjusted q-o-q data revealing a strong rise of 0.8 per cent. On one hand, the main boost to growth came from transport, communications, industrial production and financial intermediation while on the other hand, the construction industry remained in deep recession. GDP growth for the year was revised to 1.5 per cent and even stronger growth is expected in 2011. In late September the IMF approved the fifth review of Serbia's current program, opening the way for a disbursement of EUR 366.5 million. The unemployment still represents the biggest issue for the macroeconomic environment since it directly restrains personal consumption. The unemployment rate exceeded 20 per cent in 3Q 2010.

Source: Statistical Office of the Republic of Serbia; National bank of Serbia; Unicredit Research Report

Bosnia and Herzegovina

Industrial production continued to grow, with 7.1 per cent y-o-y increase due to rise of the manufacturing output which increased 14.4 per cent y-o-y- in August. Domestic demand remained weak and according to the estimates it will not contribute to the economic growth in 2011. Real gross wages fell for 1.0 per cent y-o-y in July. The unemployment rate was extremely high, over 40 per cent, GDP growth forecast remained 0.5 per cent for this year, but has been revised for 2011 from 1.2 per cent to 1.8 per cent.

Source: Federal Office of Statistics; Unicredit Research Report

Certain Factors Affecting 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 gross domestic product 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.

In general, we try to pass on price increases to our customers although competitive and other factors may make it difficult for us to pass on the full amount of price increases. In addition, our ability to pass on price increases can be more limited for commodity-based products such as edible oils than for higher value-added products such as ice cream.

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. In line with the movements on the world's commodities stock markets reflecting the rise in global demand backed by signs of economic recovery and poor weather conditions, the prices of most of our key raw materials started rising in the second quarter of 2010 following the decline in 2009.

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 one to four years, depending on store format, during which sales have not reached their maturity potential.

Exchange rate fluctuations

We are subject to currency transaction risks when our revenues and costs are denominated in different currencies. For example, our revenues 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 revenues 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, 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 favourable prices with suppliers. In addition, as we have filled out our geographic footprint in new countries, we have achieved economies of scale in terms of transportation, distribution and sales and marketing.

Expansion strategy - We have expanded significantly during the past periods as a result of a combination of organic growth and acquisitions. Although one of our strategic decisions for 2009 and 2010 was to significantly reduce acquisitions, previously completed acquisitions continued to impact our first half 2010 results.

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 SKUs as well as in terms of private label categories in order to capture this segment of the market 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 flow 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 revenues 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 tourist 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 September 30, 2009 and September 30, 2010:

(HRK million)	**Q3 2009**	**% of sales**	**Q3 2010**	**% of sales**	**2010/2009**
Sales	**19,728.0**	**100.0**	**19,712.5**	**100.0**	**-0.1%**
Cost of materials	(13,836.4)	(70.1)	(13,672.0)	(69.4)	-1.2%
Cost of services	(1,586.1)	(8.0)	(1,661.2)	(8.4)	4.7%
Gross margin	**4,305.5**	**21.8**	**4,379.3**	**22.2**	**1.7%**
Other income	149.2	0.8	174.1	0.9	16.7%
Other expenses	(3,419.4)	(17.3)	(3,447.6)	(17.5)	0.8%
Operating profit	**1,035.2**	**5.2**	**1,105.8**	**5.6**	**6.8%**
Excess of fair value of net assets over the cost of acquisition, net of written off goodwill		-	14.2	0.1	
Share of gain/loss of associates		-		-	
Impairment of financial assets	(7.4)	(0.0)	(6.2)	(0.0)	
Dividend income	0.4	0.0	0.3	-	
Sale of subsidiaries	(167.4)	-	-	-	
Sale of properties, net	(2.0)	(0.0)	(3.7)	(0.0)	89.2%
Interest income	62.1	0.3	73.0	0.4	17.5%
Interest expense	(490.4)	(2.5)	(602.4)	(3.1)	22.9%
Net foreign exchange profit	(103.6)	(0.5)	(237.8)	(1.2)	129.6%
		-		-	
Income before taxation	**327.1**	**1.7**	**343.1**	**1.7**	**4.9%**
		-		-	
Taxation	(131.7)	(0.7)	(156.7)	(0.8)	19.0%
Net profit for the year	**195.4**	**1.0**	**186.4**	**0.9**	**-4.6%**
		-		-	
Attributable to:		-		-	
Equity holders of the parent	81.2	0.4	98.4	0.5	21.3%
Minority interest	114.2	0.6	87.9	0.4	-23.0%

Segmental Analysis

The table below provides information on results of our business segments

(HRK million)	Agrokor Holding	Food Manufacturing and Distribution	Retailing and Wholesale	Other Businesses	Intersegment sales	Consolidated
30.09.2010.						
Sales to external customers	30.5	3,717.7	14,879.4	1,084.9		
Intersegmental sales	324.9	3,336.4	585.4	574.6	(4,821.3)	
Total sales	**355.4**	**7,054.1**	**15,464.8**	**1,659.5**	**(4,821.3)**	**19,712.5**
Operating profit	**(256.00)**	**816.9**	**535.9**	**9.0**		**1,105.8**
Operating profit margin (%)		11.6%	3.5%	0.5%		
Depreciation	19.2	312.3	285.0	11.9		628.4
EBITDA	(236.8)	1,129.2	820.9	20.9		1,734.2
30.09.2009.						
Sales to external customers	28.9	3,857.3	14,597.7	1,244.1		
Intersegmental sales	267.6	2,912.3	597.8	586.6	(4,364.3)	
Total sales	**296.5**	**6,769.6**	**15,195.5**	**1,830.7**	**(4,364.3)**	**19,728.0**
Operating profit	**(208.2)**	**727.3**	**486.8**	**29.4**		**1,035.3**
Operating profit margin (%)		10.7%	3.2%	1.6%		
Depreciation	20.2	280.2	235.0	6.3		541.7
EBITDA	(188.0)	1,007.5	721.8	35.7		1,577.0

Comparison of the Nine Months Ended September 30, 2009 and September 30, 2010

Sales

Our revenues are mostly generated from sales in the two core business segments: Food Manufacturing and Distribution and Retailing and Wholesale. Total sales revenues in the first nine months of 2010 are 0.1 per cent lower compared to the same period last year amounting to HRK 19,712.5 million.

Retailing and Wholesale group contributes 75.5 per cent of total sales revenue and had a growth of 1.9 per cent compared to the previous year, more specifically the revenues grew from HRK 14,597.7 million to HRK 14,879.4 million. The increase in sales was mainly the result of organic sales growth, newly opened stores and the increase of market shares in the region. The majority of sales revenue in this segment is generated by Konzum d.d., Idea d.o.o., Tisak d.d. and Konzum d.o.o. Sarajevo.

Food Manufacturing and Distribution group generates 18.9 per cent of the total sales revenue. Sales revenue achieved in the segment of food production and distribution decreased by 3.6 per cent, from HRK 3,857.3 million to HRK 3,717.7 million compared to the same period last year. The sales were driven principally by lower sales in Serbia due to the depreciation of the Serbian Dinar against Croatian Kuna of 9.1 per cent, lower revenues of our agricultural companies due to the strategic decision to reduce contract farming, lower revenues of Ice Cream and Frozen Food segment due to unfavourable weather conditions and lower sales in Edible Oils segment due to fall in retail prices of edible oils.

Operating expenses

Operating expenses relate to the costs of materials, cost of services and other expenses.

Operating expenses decreased by 0.3 per cent in the first nine month period in the year 2010, from HRK 18,841.92 million to HRK 18,780.75 million. This movement of operating expenses is in line with the Board’s decision to optimise costs and enhance operating processes.

The highest share in the structure of costs of goods sold and overhead expenses is that of the Retailing and Wholesale segment, accounting for 76.6 per cent of the total expenses. The costs incurred in this business segment increased by 1.9 per cent, from HRK 14,116.75 million to HRK 14,389.83 million, mostly due to the increase in sales volumes.

Within the other segment, Food Manufacturing and Distribution which accounted for 16.1 per cent of the total expenses, there was a decrease of 6.2 per cent from HRK 3,222.14 million to HRK 3,021.10 million.

Operating profit

In the first nine months of 2010 operating profit increased to HRK 1,105.8 million from HRK 1,035.2 million in the same period of 2009, representing a growth of 6.8 per cent. Operating profit generated from the Food Manufacturing and Distribution segment amounted to HRK 816.9 million and in the Retailing and Wholesale segment amounted to HRK 535.9 million. In the same period operating loss of Holding segment amounted to HRK 256.0 thousand and were generated only by Agrokor d.d.

Net income/loss

Net gain for the first nine months of 2010 amounted to HRK 186.4 million while in the same period in 2009 it amounted to HRK 195.4 million. The decrease in the net profit of 4.6 per cent is mainly driven by negative foreign exchange differences and an increase in interest expenses.

Net foreign exchange (loss)/profit

Net negative foreign exchange differences in the first nine months amounted to HRK 237.8 million while for the same period in the previous year they amounted to HRK 103.6 million. The change is the result of the fluctuation of the Euro exchange rate. A significant portion of loan liabilities is linked to the foreign currency (predominantly EUR).

Net interest expense

Net interest expenses increased in the first nine months of 2010 by 23.6 per cent, from HRK 428.26 million to HRK 529.47 million. The increase is mainly due to the rise in cost of financing as a result of increased interest rates after refinancing as well as due to a an increase in total indebtedness.

Taxation

Income tax increased from HRK 131.7 million to HRK 156.7 million. Tax is prepaid on the basis of 2009 figures, while the final calculation is done at the year end.

Minority interest

Minority interest income for the first nine months of 2010 amounted to HRK 87.4 million while in the same period in 2009 it amounted to HRK 114.2 million due to the slightly worse financial results of companies in which minority shareholders have significant share.

Liquidity and Capital Resources

The main sources of our 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 at September 30, 2010 amounted to HRK 849.8 million compared to HRK 895.8 million at December 31, 2009.

Net funds used in investment activities of HRK 1,186.8 million in total relate to the purchase of non-current tangible and intangible assets and acquisition of subsidiaries, in particular: building of warehouses, investment in stores and store refurbishment, investment in refrigeration equipment, investment in wine production, investment in farms as well as the purchase of IT and other equipment, while acquisition of subsidiaries is related to acquisition of Znanje d.d. and Vupik d.d.

Net funds generated from financial activities during the first three quarters reflect the changes in short-term and long-term loan facilities used by the Group. Drawn loan facilities (including Senior Unsecured Notes) as at September 30, 2010 amount to HRK 9,614.7 million in total (as at December 31, 2009 HRK 9,018.1 million in total), with interest rates ranging from 3 per cent to 11 per cent.

The table below presents our cash flows for the periods ended September 30, 2009 and September 30, 2010:

Cash flows	30.09.2009.	30.09.2010.
	(HRK millions)	
Net cash flows from operating activities before changes in working capital	**1,452.7**	**1,478.8**
Interest paid	(361.8)	(545.2)
Changes in working capital	384.3	202.8
Net cash provided by/(used in) operating activities	**1,407.8**	**603.7**
Capex	(1,302.4)	(967.3)
Acquisitions of subsidiaries, net of cash acquired	(341.5)	(308.4)
Net cash used in investing activities	**(1,383.3)**	**(1,186.8)**
Net cash from financing activities	(123.6)	**537.1**
Net increase/(decrease) in cash and cash equivalents	**(99.1)**	**(46.0)**

Changes in working capital

Changes in working capital were HRK 384.3 million in the first nine months of 2009 compared to HRK 202.8 million in the corresponding period of 2010. The movement in changes in working capital was driven by a lower accounts receivables reflecting better collection from the customers, as well as by an increase in live stock and crops inventories (resulting from the acquisition of Vupik) which offset the positive impact of the decreased level of other inventories due to optimization of inventory management.

Capital expenditure

Capital expenditure decreased by HRK 335.1 million, or 25.7 per cent, from HRK 1,302.4 million in the first nine months of 2009 to HRK 967.3 million in the corresponding period of 2010. The capital expenditure decreased due to the previous completion of a large capital investment cycle in our Food Manufacturing and Distribution division which decreased the necessary capital investments going forward and due to the reduction of discretionary capital expenditure.

Indebtedness

The following table summarizes our indebtedness at December 31, 2009 and September 30, 2010:

Borrowings	31.12.2009	30.09.2010.
	(HRK millions)	
Long-term borrowings		
-Bank loans	3,820.6	4,723.2
-Bonds	2,833.8	2,837.9
-Non-bank loans	23.3	18.5
-Finance leases	16.9	19
Total long-term borrowings	**6,694.6**	**7,598.60**
Total current portion of long-term borrowings	(914.2)	(735.7)
Short-term borrowings		
-Bank loans	2,292.7	1,990.0
-Non-bank loans	30.8	26.0
Total short-term borrowings	**2,323.5**	**2,016.0**
Total borrowings	**9,018.1**	**9,614.6**

The table below summarizes the maturity profile of our contractual long term bank loan and bond liabilities at September 30, 2010:

Maturity	Total
	(HRK millions)
2011	841,3
2012	688,3
2013	724,1
2014	828,2
2015	1.545,8
2016	2.882,6
Total	**7.510,3**

Acquisition of subsidiaries

In light of the challenging economic environment, we have decided to significantly reduce our acquisitions, only undertaking small, opportunistic acquisitions that we consider to offer significant potential. During Q1 2010 we purchased 83.11 per cent of Croatian agricultural conglomerate Vupik d.d for the consideration of HRK 30.0 million with an obligation for further investment of HRK 430.0 million in the following 5 years. After assigning 20.69 per cent of total share to Vupik employees and 6.65 per cent to the association of Croatian war veterans we currently own 55.77 per cent stake in Vupik. During 2010 we acquired management control of book publishing company Znanje d.d. through the purchase of 84.9 per cent stake in Znanje d.d. for HRK 41.8 million.

Quantitative and Qualitative Disclosures about Market Risk

Please refer to the market risk section of the 2009 FY MD&A dated April 29, 2010.