MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN Q1 2011

May 31, 2011

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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, 2010 and with our unaudited consolidated results for the periods ended March 31, 2011 and March 31, 2010 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 2010 consolidated financial statements and the forefront part of the unaudited consolidated quarterly financial statements for the period ended March 31, 2011.

Overview

Agrokor's Q1 2011 results were marked by strong growth in both revenues and profitability in spite of challenging economic environment in our Primary Markets and still declining GDP in Croatia, our most significant market. On a consolidated basis our revenues amounted to HRK 5,714.8 million, representing an increase of 4.3 per cent. Our EBITDA amounted to 466.8 million, representing an increase of 12.7 per cent with EBITDA margin increasing for 60 bps from 7.6 per cent up to 8.2 per cent.

In order to maximize efficiency throughout the value chain, we continued to implement cost optimization measures thus increasing overall profitability. Furthermore, we undertook proactive measures in the form of effective marketing strategies, price investments and product portfolio extensions which combined with overall price increases led to significant increase of our top line. These measures enabled us to maintain or increase market shares in most of our businesses again proving the effectiveness of measures undertaken and the strength of our underlying business model.

When comparing the results for the first quarter 2011 with the same period last year, it is very important to stress out the seasonality effect of Easter holidays which distorts the q-o-q comparison. Last year "Easter Effect", the intense shopping for Easter festivities which starts two weeks before Easter, took place to a great extent in Q1, while in this year the full effect will be shown in Q2 since Easter came in the end of April. As a result both our top line and EBITDA would be even stronger comparing to Q1 last year if adjusted for the "Easter Effect".

Our Retail and Wholesale division sales grew by 5.9 per cent, while EBITDA increased by 14.7 per cent with EBITDA margin improving by 40 bps, from 4.7 per cent to 5.1 per cent. We managed to further strengthen our position across the Primary markets with continuation of widening of our private label offering, focus on customer care, customer-centric retailing, cost and business processes optimization and competitive pricing policies. Most important contributors to increase in top line were our retail operations in Serbia and Croatia, while Croatian operations were primary contributor to increased profitability.

Our Food Manufacturing and Distribution division sales on consolidated basis and EBITDA grew by 11.3 per cent and 14.9 per cent, respectively. The growth was mostly driven by overall food price inflation, strong performance of our Meat and Agriculture segment and product portfolio extensions in other business segments, as we introduced innovations to our A brands portfolio while at the same time introducing new B-brands in some of our businesses.

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 32.0 per cent decrease in consolidated sales in the Other business segment.

Key highlights of Group Results and Strategy

Continued profitability enhancement

First quarter 2011 continued with the positive trend of increasing profitability backed by, on the one hand, the increased revenues from overall increase in food prices and realized effects from previous years' investments and, on the other hand, continued cost optimization and efficiency enhancements measures throughout the whole group. Our EBITDA experienced 12.7 percent growth y-o-y basis with EBITDA margin increasing for 60 bps from 7.6 per cent to 8.2 per cent.

Strong top line growth (+4.3 per cent at actual exchange rates, +4.9 per cent at constant rates)

Supported by the overall price increases and first signs of the economic recovery followed by the positive trends in consumer confidence across the Primary markets, we managed to deliver strong top line growth. Our consolidated sales grew by 4.3 per cent (4.9 per cent at constant exchange rates) compared to Q1 2010 and amounted to HRK 5,714.8 million with Retail and Wholesale division being the largest contributor to strong growth.

Increasing market shares across the region

We managed to outperform the market in most of our sectors experiencing a steady increase in market shares across our business divisions, strengthening thus our leadership position. By implementing our know-how and synergies we managed to give our customers even more value thus increasing our competitive advantage. Our strategy to provide the customers with more "value for money" through tailoring our marketing approach, modifying our price policy, extending our product portfolio and putting a strong focus on innovation and brand awareness resulted in strengthened customer loyalty.

Further balance sheet strengthening

Following our strategic decision to reduce our reliance on short term financing, after the successful issuance of Eur 400mn Senior 10% Notes due 2016 in December 2009 and signing of the new Eur 352mn Senior Facility Agreement in June 2010, in January 2011 we re-approached the high yield market with a successful Eur 150mn tap issue at the yield-to-worse of 8.04%. Furthermore we also refinanced our Eur 40 million loan on Frikom with IFC which now has maturity until 2015. These two transactions further improved our liquidity position and lengthened our debt maturity profile bringing our long term debt to more than 80 per cent of our total indebtedness.

Recent Developments

In efforts to further strengthen our presence in Serbia, we acquired 6 supermarkets from Tuš Holding in April, through a combination of inventory and equipment purchase and signed lease contract for the retail space with Tuš real estate company as well as entered into pre-agreement for the purchase of three out of the six stores.

Our offer for the 23.3% stake in Poslovni Sistem Mercator d.d., the leading retailer in Slovenia with operations across the wider SEE region, expired without being accepted by the seller. As a result S&P has taken us off the watch negative and affirmed our B rating.

We are also currently in negotiations with potential buyers regarding divestment of our billboard advertising company Media d.o.o. We are expecting potential close of the transaction during 2011.

Performance of divisions

Retailing and Wholesale

In spite of still challenging economic environment in our Primary markets our well positioned strategies oriented towards growth, improved productivity and customers' orientation contributed to significantly strengthening our position and successfully boosting our trade as well as profit margins, as is evidenced by our quarterly results.

Effective market strategies mentioned above are a continuation of proven strategies from 2010. *Widening of Private label offering, Focus on customer care and Customer-centric strategies* are responses to changed customers' habits and behavior (careful expenditures planning, orientation towards neighborhood stores, decrease of consumption basket etc.) with consumption expenditures mostly driven by *price* and *location*.
As for *Cost and business processes optimization*, it will remain the division focus in 2011 as it was in 2010. Implementation of strategies, especially *Competitive pricing policies* would not have been able without strong cooperation with our suppliers.

It is very important to stress out the seasonality effect of Easter holidays which distorts the q-o-q comparison. Namely, Easter holidays last year fell in the beginning of April and therefore partially influenced first quarter results whereas this year Easter fell at the end of April, contributing only to the second quarter results.

Nevertheless, despite the "Easter effect" and challenging environment Retailing and Wholesale division results are noteworthy with 5.9 per cent increase in sales, on a consolidated basis, and EBITDA margin improving for 40 bps, from 4.7 per cent to 5.1 per cent.

Croatia

Positive analysts' macroeconomic predictions indicating 1.6 per cent GDP growth, a decrease in unemployment rate and an increase in private consumption in 2011 will be subject to a revision as pressures on the Croatian market still exist as seen from the quarterly macro results.

Concentration of Croatian retail market, measured by top 10 retailers, increased significantly from 70.1 per cent to 76.3 per cent. This was a direct result of decrease in market shares of smaller (below top 10) retailers that were not able to cope with the crisis.

Konzum continued to increase its market share which as at March 31, 2011 amounted to 28.9 per cent[1]. The 1.1 per cent increase of market share is a result of sharper promotional and marketing activities, constant customer care and other effective strategies implementation.

In addition to regular promotional activities, Konzum undertook one-off promotional activity in February – sending a 10 per cent discount coupons to all of its faithful customers contributing to quarterly sales increase. After a longer period of an in-store deflation, quarterly sales were also boosted by an in-store inflation of 3.9 per cent. However, an in-store inflation was still below market in-store inflation as a result of our investment in prices.

Our wholesale business segment experienced an increase after a longer period of negative trend driven primarily by the HORECA segment.

Serbia

Our Serbian retail operations performed well both in terms of sales and EBITDA, being the main generator of divisional sales growth. The strong result can be explained by efficient implementation of our strategies, currency appreciation, in-store inflation of 15.3 per cent for first quarter (affected by significant general

[1] Gfk Consumer Tracking Croatian retail market shares 2011

market in-store inflation) as well as the general perception of our consumers. As indicated by market survey, Serbian retail operations are a market leader in Price-Location-Marketing consumer perception. In addition, the results are also affected by new store openings and more aggressive promotional and marketing activities.

Private label sales as a percentage of total sales continued to increase, which had a positive effect on our gross margins. Margins are as well affected by increase of promotional sales as a percentage of total sales.

Bosnia and Herzegovina

Retail market of Bosnia and Herzegovina is most effected by deteriorating macroeconomic environment visible from further unemployment increase, with around 10,000 of newly unemployed, private consumption decrease, higher illiquidity of private and public sector, decreased investments etc. However, our retail operations in Bosnia & Herzegovina still managed to post good results both in revenues and EBITDA.

Because of market specifics and deteriorating macroeconomic environment we continued investing in our prices and have experienced an in-store price inflation of 3.1 per cent, which was well below the market inflation of 5.3 per cent.

We continued our organic growth expansion by opening new stores and strengthening our positioning as leading food retailer on the market. We also continued with strong marketing and promotional activities as a response to the market environment which resulted in the increase of promotional sales as a percentage of total sales of around 5.0 per cent.

Store breakdown on our Primary markets

During first quarter 2011 we remained focused on strengthening our retail presence across the region especially in the markets of Serbia and Bosnia and Herzegovina. As at March 31,2011 we had a total of 952 stores (including 27 Velpro wholesale stores), owned or operated under operating lease and rental arrangements.

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

Q1 2011 Ended March 31, 2011	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	654	235,970	7	4,450	(10)	(935)	264	651	239,749
KONZUM Sarajevo (Bosnia and Herzegovina)	136	64,958	4	1,498	(1)	(606)		139	65,850
IDEA (Serbia)	132	56,167	3	730			(15)	135	56,882
Group Total	**922**	**357,095**	**14**	**6,678**	**(11)**	**(1,541)**	**249**	**925**	**362,481**

Q1 2011 Ended March 31, 2011	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	774	136,150	38.1%	571	97,700	90	15,558	113	24,345	774	137,603	38.0%
Maxi	84	67,794	19.0%	33	27,996	41	31,721	12	8,725	86	68,442	18.9%
Super	63	146,516	41.0%	47	114,053	8	18,571	9	17,177	64	149,801	41.3%
Hyper	1	6,635	1.9%					1	6,635	1	6,635	1.8%
Total retail	922	357,095	100.0%	651	239,749	139	65,850	135	56,882	925	362,481	100.0%
Velpro	27	105,022		18	44,524	2	6,980	7	52,094	27	103,598	
Total retail and wholesale	**949**	**462,117**		**669**	**284,273**	**141**	**72,830**	**142**	**108,976**	**952**	**466,079**	
Tisak	1,210	14,773		1,201	14,964					1,201	14,964	

Food Manufacturing and Distribution and Other Businesses

The Food Manufacturing and Distribution division experienced a sales and EBITDA growth of 11.3 per cent and 14.9 per cent, respectively. Furthermore, EBITDA margin increased for 50 bps, from 15.2 per cent to 15.7 per cent.

These figures are even more impressive when accounting for the fact that the "Easter effect" was not shown in Q1 figures as this year Easter came in the end of April. Intense shopping for Easter festivities, which starts at least two weeks prior to Easter, and which is also known as the "Easter effect" this year occurred in the month of April while last year significant part of the "Easter effect" was also shown in Q1 figures. The "Easter effect" is particularly important for Zvijezda and Dijamant (Edible Oil and Margarine), PIK Vrbovec (Meat and Meat Processing) and Ledo and Frikom (Ice Cream and Frozen Food). Nevertheless, most of the mentioned companies posted better results compared to the same period last year.

The main driver of increased revenues and profitability was our Meat and Agriculture segment. Although this segment has traditionally lower margins than our other food segments in this quarter it posted good results primarily due to increased food prices and strong growth of Agrofructus, our subsidiary in charge of production of fruits and vegetables.

Edible Oils and Margarines segment also contributed to increased revenues and profitability due to higher edible oil prices compared to same period last year. Other segments posted results which are more or less in line with first quarter last year.

Recent Macroeconomic Developments

Croatia

The macroeconomic environment in the Q1 2011 was mostly in light of Croatia's EU accession negotiations which have drawn closer to their final phase. If Croatia should manage to meet all the benchmarks by the end of June, the EU membership will be possible in 2013, since the ratification process takes at least a year and a half. According to Central Bureau of Statistics total volume of industrial production fell by 3.6 per cent in Q1 2011 compared to the same period of the previous year. The ongoing fall in the industrial production was a result of decline in processing industry. Furthermore, volume of construction works showed a 7.1 per cent decline in February y-o-y, which might show negative trends in investments in Q1 2011 considering that construction sector generated large part of investments before the crisis. The increase in finished goods inventory together with the continued fall in industrial production revealed the unstable foreign demand and slow recovery of domestic demand. Inflation remained low, reflecting high unemployment and real wages fall. Real wages declined by 0.5 per cent in Q1 2011 compared to the same period of the previous year, while the unemployment rate grew by 5.8 per cent. Weak private consumption continued to negatively affect retail market which fell by 0.5 per cent. Export declined by 2.5 per cent in Q1 2011 y-o-y, mostly due to the lower transport equipment export (especially ships) while import grew by 2.8 per cent. Low personal consumption, negative trends on labor market, industrial production decline and lower export will probably show a negative impact on GDP in Q1 2011. On March 8th the central bank lowered the foreign assets to foreign liabilities ratio from 20% to 17%, releasing an estimated EUR 850mn in liquidity. The changes to monetary policy reflect concerns about the pace of economic recovery and seek to assist the recovery in credit growth to the private sector.

Source: Central Bureau of Statistics; Raiffaisen macroeconomic analysis, May2011; UniCredit Research Report

Serbia

The macroeconomic environment in Serbia was marked by continued recovery as GDP mantained a modest uptrend recording an estimated 3 per cent growth in real terms in Q1 2011, as compared to the Q1 2010. Industrial production continued to rise reflecting a 4.6 per cent growth in Q1 2011 compared to the same period of the previous year. Major drivers of industrial production growth were production of basic metals, electricity supply, production of metal products excluding machinery, production of non-metallic mineral products and production of motor vehicles and trailers. Negative trends are still persistent in the retail trade market due to the labour market conditions as well as high inflation. Retail trade showed a 9.6 per cent contraction in real terms in Q1 2011 compared to the same period last year. Unepmloyment rate remained high approaching 20 per cent while the real wages fell by 2.3 per cent in the Q1 2011 y-o-y, leaving the consumer demand unstable. Inflation recorded a continued growth and is expected to reach its peak in the Q2 2011. Total foreign trade in goods in Q1 2011 showed an increase of 25.1 per cent compared to the same period last year. Export grew 32.1 per cent, especially due to the high export of intermediate goods representing 70.8 per cent of the total export. As for the EU accession, the government is hoping to achieve EU candidate country status by October at which point the elections could be called.

Source: Statistical Office of the Republic of Serbia, UniCredit Research Report

Bosnia and Herzegovina

The macroeconomic framework in the first quarter was characterized by the economic recovery based on the recovery of foreign demand and export expansion, a very mild recovery in domestic consumption and credit growth, stagnation of registered unemployment and other indicators of labor market and rising levels of inflation pressure due to "imported inflation". In line with events on the international markets, "imported inflation", through higher oil and energy prices, reflected on the Bosnia and Herzegovinian market as well, where inflation in the first quarter reached a level of 3.3 per cent. Export has remained a key factor of the economic recovery recording a growth of 28 per cent, based on a strong economic recovery of Bosnia and Herzegovina's EU trading partners. The recovery in exports is based on the production of base metals, mineral products, chemical industry products, wood and wood products, machinery and appliances. Industrial production shows strong signs of recovery in 2011, with the growth rate of 10.5 per cent y-o-y, which was mainly a result of the previous year low base. The accelerating trend of import growth was also continued in the first quarter of 2011 amounting to 23 per cent y-o-y, which can be explained both as a consequence of the rise in energy prices on the world market and as a gradual recovery of the domestic consumption and overall demand for the other categories of imports. The unemployment rate remained unchanged during January and February amounting to 43.1 per cent and was followed by a very slow wage growth amounting to 2.2 per cent. Foreign investments recorded a growth of 9.0 per cent y-o-y which represents 2.9 per cent of GDP.

Source: Raiffaisen macroeconomic analysis, May2011

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 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.

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, the prices of most of our key raw materials continued rising during the Q1 2011.

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 favorable 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.

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 March 31, 2010 and March 31, 2011:

(HRK million)	**1Q 2010**	**% of sales**	**1Q 2011**	**% of sales**	**2011/2010**
Sales	**5,478.5**	**100.0**	**5,714.8**	**100.0**	**4.3%**
Cost of materials	(3,774.9)	(68.9)	(3,934.3)	(68.8)	4.2%
Cost of services	(458.3)	(8.4)	(525.1)	(9.2)	14.6%
Gross margin	**1,245.3**	**22.7**	**1,255.3**	**22.0**	**0.8%**
Other income	30.3	0.6	55.0	1.0	81.7%
Other expenses	(1,057.3)	(19.3)	(1,048.3)	(18.3)	-0.9%
Operating profit	**218.2**	**4.0**	**262.1**	**4.6**	**20.1%**
Excess of fair value of net assets over the	74.7		(0.7)		-101.0%
cost of acquisition, net of written off goodwill	-	-	-	-	
Share of gain/loss of associates	-	-	-	-	
Impairment of financial assets	(3.0)	(0.1)	(0.1)	-	-97.4%
Dividend income	-	-	-	-	
Sale of subsidiaries	-	-	-	-	
Sale of properties, net	1.6	0.0	(2.0)	(0.0)	-225.6%
Interest income	22.7	0.4	23.6	0.4	4.0%
Interest expense	(153.5)	(2.8)	(176.9)	(3.1)	15.2%
Net foreign exchange profit	(88.9)	(1.6)	5.2	0.1	-105.9%
				-	
Income before taxation	**71.7**	**1.3**	**111.3**	**1.9**	**55.3%**
				-	
Taxation	(34.0)	(0.6)	(25.4)	(0.4)	-25.3%
Net profit for the year	**37.7**	**0.7**	**85.9**	**1.5**	**127.9%**
Attributable to:					
Equity holders of the parent	26.1	0.5	56.5	1.0	116.2%
Minority interest	11.6	0.2	29.4	0.5	154.5%

Segmental Analysis

The table below provides information on results of our business segments for the periods ended March 31, 2010 and March 31, 2011:

(HRK million)	**Agrokor Holding**	**Food Manufacturing and Distribution**	**Retailing and Wholesale**	**Other Businesses**	**Intersegment sales**	**Consolidated**
31.03.2011.						
Sales to external customers	6.2	982.8	4,499.1	226.6		
Intersegmental sales	92.4	969.1	191.0	195.5	(1,448.1)	
Total sales	**98.6**	**1,952.0**	**4,690.1**	**422.1**	**(1,448.1)**	**5,714.8**
Operating profit	**(91.4)**	**201.9**	**151.1**	**0.4**		**262.1**
Operating profit margin (%)	-	10.3%	3.2%	0.1%		
Depreciation	1.8	103.6	88.9	10.4		204.7
EBITDA	(89.6)	305.5	240.0	10.9		466.8
31.03.2010.						
Sales to external customers	12.1	882.8	4,250.1	333.4		
Intersegmental sales	105.7	871.7	179.3	160.0	(1,316.7)	
Total sales	**117.8**	**1,754.5**	**4,429.4**	**493.4**	**(1,316.7)**	**5,478.5**
Operating profit	**(79.8)**	**162.7**	**128.0**	**7.4**		**218.2**
Operating profit margin (%)	-	9.3%	2.9%	1.5%		
Depreciation	8.7	103.3	81.3	2.8		196.2
EBITDA	(71.1)	265.9	209.3	10.2		414.4

Comparison of the Periods Ended March 31, 2010 and March 31, 2011

Sales

Our revenues are mostly generated from sales in the two core business segments: Food Manufacturing and Distribution and Retailing and Wholesale. Total sales revenue increased by 4.3 per cent in the first quarter 2011 compared to the same period of the previous year, from HRK 5,478.5 million to HRK 5,714.8 million.

Retailing and Wholesale division contributes 78.7 per cent of total consolidated sales revenue and had a growth of 5.9 per cent compared to the previous year, more specifically the sales grew from HRK 4,250.1 million to HRK 4,499.1 million. The increase in sales was the result of organic sales growth through the increase of market shares in the region based on continuation of competitive pricing policies, aggressive promotional and marketing activities as well as appreciation of Serbian dinar and general in-store inflation.

Food Manufacturing and Distribution division generates 17.2 per cent of the total consolidated sales revenue. Sales revenue in this division increased by 11.3 per cent, from HRK 882.8 million to HRK 982.8 million compared to the same period last year. This increase of sales is mostly driven by our Meat and Agriculture segment as a result of an overall increase in food prices and strong organic growth of Agrofructus, our subsidiary in charge of production of fruits and vegetables.

Operating expenses

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

Operating expenses increased by 4.1 per cent, from HRK 5,290.6 million to HRK 5,507.7 million and were predominantly driven by the increased level of operations. Costs of materials remain more or less stable as percentage of sales while cost of services increased for 80 bps primarily driven by new store openings compared to the same period last year. On the other hand, other expenses decreased by 100 bps as a percentage of sales as a result of our continuous focus on cost optimization and efficiency improvements.

Operating profit

Operating profit increased from HRK 218.2 million to HRK 262.1 million, representing a substantial growth of 20.1 per cent backed by improved performance in both Retailing and Wholesale and Food Manufacturing and Distribution divisions.

Operating profit generated from the Food Manufacturing and Distribution segment increased from HRK 162.7 million to HRK 201.9 million, while in the Retailing and Wholesale segment it increased from HRK 128.0 to HRK 151.1 million.

Net profit/loss

Net profit for the year amounted to HRK 85.9 million which is a 127.9 per cent increase in comparison to the same period last year which amounted to HRK 37.7 million. The increase in the net profit is mainly driven by increase in EBITDA and positive foreign exchange differences.

Net foreign exchange (loss)/profit

Net positive foreign exchange differences in the first quarter 2011 amounted to HRK 5.2 million while for the same period previous year foreign exchange differences were negative and amounted to HRK 88.9 million. The change is predominantly the result of appreciation of Serbian dinar and slightly lower volatility of the Euro exchange rate.

Net interest expense

Net interest expenses increased by 17.2 per cent compared to the first quarter 2010, from HRK 130.8 million to HRK 153.3 million predominantly due to the increase in the overall indebtedness.

Taxation

Income tax decreased from HRK 34.0 million to HRK 25.4 million. Our effective tax rate was 22.8 per cent for the first quarter 2011 compared to 47.4 per cent as of the first quarter 2010. Corporate taxation is based on the accounting profit for the year adjusted for permanent and temporary differences between taxable and accounting income.

Non-controlling interest

Non-controlling interest income increased from HRK 11.6 million to HRK 29.4 million due to the better financial results of companies in which minority shareholders have significant share.

Liquidity and Capital Resources

The main sources of our liquidity continue to be cash and cash equivalents generated in the regular course of business and financial arrangements with banks and financial institutions.

Cash and cash equivalents as at March 31, 2011 amounted to HRK 799.9 million compared to HRK 876.0 million at December 31, 2010.

Net funds used in investment activities of HRK 183.7 million in total relate to the purchase of non-current tangible and intangible assets, 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.

Net funds generated from financial activities reflect the changes in short-term and long-term loan facilities used by the Group. Drawn loan facilities (including Senior Unsecured Notes) as at December 31, 2010 amount to HRK 10,436.0 million in total as at March 31, 2011 with interest rates ranging from 3.0 to 11.0 per cent.

The table below presents our cash flows for the periods ended March 31, 2010 and March 31, 2011:

Cash flows	31.03.2010.	31.03.2011.
	(HRK million)	
Net cash flows from operating activities before changes in working capital	**337.4**	**475.2**
Interest paid	(133.3)	(171.0)
Changes in working capital	(57.2)	(149.0)
Net cash provided by/(used in) operating activities	**114.3**	**(183.2)**
Capex	(189.5)	(223.5)
Acquisitions of subsidiaries, net of cash acquired	(105.8)	(0.0)
Net cash used in investing activities	**(379.1)**	**(183.7)**
Net cash from financing activities	**175.8**	**290.9**
Net increase/(decrease) in cash and cash equivalents	**(89.1)**	**(76.1)**

Changes in working capital

Changes in working capital were HRK -149.0 million compared to HRK -57.2 million in the same period last year. The negative working capital change in Q1 is of a seasonal character and predominantly driven by a decrease in accounts payables.

Capital expenditure

Capital expenditures increased by HRK 34.0 million, or 17.9 per cent, from HRK 189.5 million to HRK 223.5 million. The capital expenditures growth was caused by increased investment activities compared to the same period last year.

Indebtedness

The following table summarizes our indebtedness at December 31, 2010 and March 31, 2011:

Borrowings (HRK million)	31.12.2010	31.3.2011
Long-term borrowings		
-Bank loans	4,858.9	4,718.7
-Bonds	2,878.1	3,979.6
-Non-bank loans	40.3	7.5
-Finance leases	14.0	22.8
Total long-term borrowings	**7,791.3**	**8,728.6**
Total current portion of long-term borrowings	(796.9)	(749.2)
Short-term borrowings		
-Bank loans	2,316.4	1,681.3
-Non-bank loans	26.1	26.1
Total short-term borrowings	**2,342.5**	**1,707.4**
Total borrowings	**10,133.8**	**10,436.0**

The table below summarizes the maturity profile of our long-term borrowings at March 31, 2011:

Maturity (HRK million)	Total
2011	544.1
2012	863.4
2013	799.8
2014	891.4
2015	1,591.9
2016	4,022.4
2017 and later	15.6
Total	**8,728.6**