AGROKOR

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN H1 2016

August 29th, 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 June 30th, 2016 and June 30th, 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 June 30th, 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 H1 2016 with the same period last year, total sales[1] on a consolidated basis decreased by 2.0 per cent from HRK 23,342.7 million to HRK 22,881.5 million. EBITDA decreased by 5.3 per cent, from HRK 1,986.0 million to 1,880.0 million, while EBITDA margin[2] decreased from 8.5 per cent to 8.2 per cent. Within the Restricted Subsidiaries our total sales showed an increase of 0.4 per cent from HRK 13,716.7 million to HRK 13,777.1 million. EBITDA also improved by 2.7 per cent, from HRK 1,444.1 million to HRK 1,482.8 million predominantly due to the better performance of our Retailing and Wholesale division and lower expenses on the Agrokor Holding level.

During H1 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 84.9 per cent to the total consolidated sales and posted a decrease of 2.4 per cent compared to the previous year with sales decreasing from HRK 19,894.2 million to HRK 19,416.6 million. Division's EBITDA decreased from HRK 1,296.1 million to HRK 1,166.9 million representing a 10.0 per cent decrease with EBITDA margin decreasing from 6.2 per cent to 5.7 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 11.7 per cent to the total consolidated sales. Sales in this division remained stable with 0.3 per cent decline compared to the same period last year, from HRK 2,697.0 million to HRK 2,687.8 million. Division's EBITDA decreased from HRK 715.4 million to HRK 707.7 million representing a 1.1 per cent decrease. EBITDA margin decreased from 14.1 per cent to 13.9 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 3.2 per cent to the total consolidated sales. Sales in this division posted an increase of 4.4 per cent, from HRK 695.5 million to HRK 726.1 million. EBITDA increased by 17.8 per cent

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

from HRK 46.7 million to HRK 55.0 million with EBITDA margin increasing from 4.0 per cent to 4.4 per cent, on an unconsolidated basis. Increase in both sales and EBITDA was predominantly driven by the contribution of new businesses acquired in 2015 coupled with better performance of our biogas plants.

Recent Developments

In June 2016 Agrokor and Ardo signed a Joint Venture agreement that will enable the JV to become a leading manufacturing plant of frozen fruits and vegetables in Eastern Europe. Through the signing of the contract, which is worth €50 million, both companies will become equal owners of Vinka. Agrokor has so far invested nearly €25 million in Vinka. Agrokor has chosen Ardo as a strategic partner to increase the current production volumes from 15,000 tons to 60,000 tons.

In August 2016 Agrokor sold 16.0 per cent of its holdings in Tisak, the leading Croatian kiosk chain, to Tvornica Duhana Rovinj (TDR), the leading Croatian tobacco company owned by British American Tobacco (BAT). Agrokor remains majority shareholder in Tisak with 51.3 per cent stake, with BAT holding 25.9 per cent directly and an additional 16.0 per cent stake through TDR.

Mercator signed the SPA for disposal of Modiana, its fashion apparel company, with Montecristo SL. The SPA includes both apparel stores and drug stores. The completion of the transaction is subject to customary formal procedures, including obtaining regulatory approvals. The transaction is expected to be completed by the end of the year.

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

Performance of divisions

Retailing and Wholesale

Throughout the first half 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. We are focussed on working capital optimisation and a more efficient management of our inventories and receivables in particular. 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 H1 2016 posted 0.7 per cent decrease in sales on an unconsolidated basis, from HRK 20,741.5 million to HRK 20,595.7 million, with an EBITDA decrease of 10.0 per cent, from HRK 1,296.1 million to HRK 1,166.9 million. EBITDA margin decreased by 58 bps, from 6.2 per cent to 5.7 per cent. The decrease in sales and profitability is predominantly due to weaker performance in Slovenia. Within the Restricted Group, our retail operations recorded an increase in unconsolidated sales of 3.7 per cent and EBITDA growth of 2.1 per cent which led to a margin increase from 7.0 per cent in the H1 2015 to 7.1 per cent in H1 2016.

Croatia

Although positive trends are visible, 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. Most of the projects started in Q1 2016 such as self-service bakeries and various activities in small stores are already showing very good results on the revenue side and are having positive feedback from customers. During Q2 significant focus has been put on the preparation for the forthcoming touristic season with several interventions on the assortment, pricing policy, making sure that the top selling articles are always on stock and well displayed. Moreover greater focus has been put on the logistics to ensure a seamless supply of the coastal stores.

One of the key targets for this year, throughout the whole region, is working capital optimisation which enabled us to fine-tune the number of articles, notably across the convenience stores. Konzum is also working on the "urban store concept" where we are aiming to tailor our in-store offer closer to the urban customer. Konzum Klik, the online platform that was launched in 2015 is showing positive trends with Zagreb, the capital city, still being the main driver of growth.

In H1 2016 our wholesale, which operates as separate legal entity, experienced growth driven primarily by the HoReCa channel.

Slovenia

Despite signs of general macroeconomic recovery in Slovenia the food retail market conditions in H1 2016 still remain tough and grocery retailers are experiencing a slight decrease in revenues compared to last year. The market is saturated and the top 3 players account for 70 per cent market share. Refurbishments made in 2015 are showing positive results on the revenue side and are bringing more customers into our stores.

Mercator refurbished 9 stores and is actively undertaking various measures with the aim of attracting customers, including tailoring the assortment, rewarding loyal customers via the PIKA card programme, and adjusting the private label offering. Moreover it has launched a new store concept that is an upgrade to the neighbourhood stores with a broader and especially deeper offer of fast-moving consumer goods. Transfer of know-how across the region is continuing not only on pricing strategy but also on the in store layouts and merchandise positioning.

The wholesale business is experiencing slight decrease as a result of the strategic decision to focus on more established and creditworthy partners.

Serbia

After several quarters of negative macroeconomic environment the Serbian economy continued with a positive momentum in first half of 2016, 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 the first half of 2016 Mercator opened 17 new stores and refurbished 3 stores. In 2016 Roda started to work on its layout, assortment and equipment standardization throughout the country to improve in store business operations and increase efficiency. Idea started to make changes and small refurbishments on a portfolio of 94 stores (mostly Roda stores that were converted into the Idea banner and some older Idea stores) to raise them to the standards required by the Group with a particular focus on the fresh assortment and quality of service.

The wholesale segment is experiencing an increase in the first half of 2016.

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. In H1 2016 we continued with the repositioning of our portfolio of convenience stores and as part of that we have introduced a new pricing policy, which is showing positive trends and is increasing the number of customers in our stores. We also improved in store signage, layouts and merchandise organization within our stores.

Our wholesale segment has been carved out from Konzum, as it was done in Croatia, and has experienced a softer performance as a result of limiting the exposure to accounts with weaker credit metrics.

Konzum (Restricted Subsidiary)

As of June 30th, 2016 we had a total of 1,925 retail FMCG stores and 55 wholesale FMCG stores. Out of these, Konzum (operation in Croatia and B&H) had a total of 1.015 retail FMCG stores and 30 Velpro wholesale stores, while Mercator (operations in Slovenia, Serbia and Montenegro) had a total of 910 FMCG stores and 25 wholesale stores, owned or operated under operating lease and rental arrangements.

The tables below show Konzum and Mercator stores by format:

H1 2016 Ended (June 30, 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	574	126.421	172	35.190	746	161.611
Maxi	107	91.175	45	40.481	63	51.237	108	91.718
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	0	0	68	12.447
Total FMCG retail	**1.000**	**481.546**	**764**	**363.360**	**251**	**123.062**	**1.015**	**486.422**
Velpro	27	57.807	25	46.622	5	8.278	30	54.900
Total FMCG retail and wholesale	**1.027**	**539.353**	**789**	**409.982**	**256**	**131.340**	**1.045**	**541.322**
Tisak	1.103	14.852	1.089	14.761	0	0	1.089	14.761

Mercator (Unrestricted Subsidiary)

H1 2016 Ended (June 30, 2016)	Start of Period (December 31, 2015)		Slovenia	Serbia	Croatia	B&H	Montenegro	Macedonia, Albania and Kosovo	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	182.467
Supermarkets	231	162.057	109	90			13		212	148.223
Neighbour stores	618	133.656	339	205			91		635	147.736
Comfort stores	2	3.776	1	1					2	3.776
Mini stores	1	83	1	0					1	83
TOTAL FMCG retail	**911**	**476.660**	**472**	**332**			**106**		**910**	**482.285**
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**	**494**	**341**			**108**		**943**	**520.214**
Technical consumer goods	53	46.478	45	0			1		46	38.908
Clothing program and drugstores	103	44.777	47	13	24	13			97	41.630
Clothing program	87	42.998	40	8	24	9			81	39.851
Drugstores and perfumeries	16	1.779	7	5		4			16	1.779
Intersport	93	42.911	35	13	38	10	4		100	45.867
M holidays	12	242							0	
Other	0								0	
TOTAL specialised programs	**261**	**134.408**	**127**	**26**	**62**	**23**	**5**	**0**	**243**	**126.405**
TOTAL retail units under management	**1.207**	**649.132**	**621**	**367**	**62**	**23**	**113**	**0**	**1.186**	**646.619**
Franchise stores	229	35.610	221					9	230	36.031
TOTAL	**1.436**	**684.742**	**842**	**367**	**62**	**23**	**113**	**9**	**1.416**	**682.650**

Food Manufacturing and Distribution

Food Manufacturing and Distribution division recorded stable unconsolidated sales posting a minor increase from HRK 5,084.3 million to HRK 5,107.8 million. EBITDA remained flat as well posting only a minor decrease from HRK 715.4 million to HRK 707.7 million with EBITDA margin decreasing by 21.6 bps from 14.1 per cent to 13.9 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 Q2 2016 suggest that GDP growth of cca 2.2 per cent is expected for Q2, translating into a full year growth of 2.0 per cent, and driven primarily by domestic demand and increase in industrial output. Stronger growth rates of the imports of goods reduce the positive contribution of export growth. Continued growth in personal consumption was based on the increase in retail trade, which reflects mildly-positive consumer expectations. Public consumption is expected to stay subdued given the political deadlock on spending. The recovery of personal consumption was supported by mild employment growth and nominal salaries, which on the other side is paired with continued deflationary pressures and reduced interest rates on loans.

Slovenia

Following 2015 GDP growth of 2.9 per cent, the growth has slowed down in 2Q to 2.5 per cent. In the second quarter of 2016 exports and consumption remained growth drivers. 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, although consumption was focused on bigger ticket purchases. Investment growth slowed down due to another slump in construction investment. Prices in 2016 tend to remain, on average, at a similar level or with slight deflationary pressures, mostly due to the effect of lower fuel prices.

Serbia

Positive trends continued also in Q2 as GDP performed growing 1.8 per cent y-o-y (but lower compared to 3.5 per cent growth in Q1) backed by strong investment (driven by State infrastructure projects as well as FDI) and export growth. Public spending is at neutral levels or slightly negative given longer cabinet formation.

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

The economy is boosted by strong domestic and solid external demand, however, it remains 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 continues to be present also in 2016. The expected growth in coming years ~3.0 per cent pace cannot be sustained without significant IMF financing and FDI (strong this year compared to 2015) 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 June 30th, 2016 and June 30th, 2015;

(HRK million)	**30.06.2015.**	**% of sales**	**30.06.2016.**	**% of sales**	**2016/2015**
CONTINUING OPERATIONS:					
Sales Revenue	22.476,7	96,3%	21.687,5	94,8%	-3,5%
Sales of services	866,0	3,7%	1.194,1	5,2%	37,9%
Total sales	**23.342,7**	**100,0%**	**22.881,5**	**100,0%**	**-2,0%**
Other income	171,2	0,7%	123,0	0,5%	-28,1%
Change in inventories of finished goods and works in progress	39,7	0,2%	-91,5	-0,4%	-330,4%
Cost of material and goods sold	-16.643,9	71,3%	-16.111,2	70,4%	-3,2%
Cost of services	-1.912,6	8,2%	-1.992,9	8,7%	4,2%
Staff cost	-2.309,6	9,9%	-2.292,6	10,0%	-0,7%
Depreciation and amortization	-791,0	3,4%	-802,6	3,5%	1,5%
Other costs	-702,5	3,0%	-636,9	2,8%	-9,3%
Excess of fair value of net assets over the cost of acquisition, net of written-off goodwill					
Sale of properties, net	-2,9	0,0%	-11,6	0,1%	297,2%
	-22.151,7	**94,9%**	**-21.816,3**	**95,3%**	**-1,5%**
Financial income	414,3	1,8%	696,3	3,0%	68,1%
Financial expense	-1.079,0	4,6%	-1.280,2	5,6%	18,6%
	-664,6	**2,8%**	**-583,9**	**2,6%**	**-12,2%**
Share of gain/loss of associates		0,0%		0,0%	
Profit before tax	**526,3**	**2,3%**	**481,4**	**2,1%**	**-8,5%**
Taxation	-112,2	0,5%	-107,3	0,5%	-4,3%
Profit/(loss) for the year	**414,2**	**-1,8%**	**374,1**	**1,6%**	**-9,7%**
DISCONTINUED OPERATIONS:					
Loss after tax for the year from discontinued operations	-99,1	0,4%	-1,0	0,0%	
PROFIT/(LOSS) FOR THE YEAR	**315,1**	**-1,3%**	**373,1**	**1,6%**	**18,4%**
Attributable to					
Equity holders of the parent	187,1	-0,8%	237,9	1,0%	27,1%
Minority interest	128,0	-0,5%	135,2	0,6%	5,7%

Segmental Analysis

The table below provides information on results of our business segments for the periods ended on June 30th, 2016 and June 30th, 2015:

Business operating segments

(HRK million)	**Agrokor Holding**	**Food Manufacturing and Distribution**	**Retailing and Wholesale**	**Other Businesses**	**Intersegment sales**	**Consolidated**
30.06.2016.						
Sales to external customers	51,1	2.687,8	19.416,6	726,1		
Intersegmental sales	97,4	2.420,0	1.179,1	530,5	(4.227,0)	
Total sales	**148,5**	**5.107,8**	**20.595,7**	**1.256,6**	**(4.227,0)**	**22.881,5**
Operating profit	**(91,1)**	**493,5**	**631,3**	**43,6**		**1.077,4**
Operating profit margin (%)	-	9,7%	3,1%	3,5%		
Depreciation	41,5	214,1	535,6	11,4		802,6
EBITDA	(49,6)	707,7	1.166,9	55,0		1.880,0
30.06.2015.						
Sales to external customers	56,0	2.697,0	19.894,2	695,5		
Intersegmental sales	144,0	2.387,4	847,3	486,8	(3.865,5)	
Total sales	**200,1**	**5.084,3**	**20.741,5**	**1.182,2**	**(3.865,5)**	**23.342,7**
Operating profit	**(76,8)**	**502,0**	**734,6**	**35,1**		**1.195,0**
Operating profit margin (%)	-	9,9%	3,5%	3,0%		
Depreciation	4,6	213,4	561,5	11,6		791,0
EBITDA	(72,2)	715,4	1.296,1	46,7		1.986,0

Comparison of the Periods Ended June 30th, 2016 and June 30th, 2015

Sales revenue

Sales revenue decreased by HRK 789.2 million, or 3.5 per cent, from HRK 22,476.7 million to HRK 21,687.5 million. 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 96.3 per cent to 94.8 per cent.

Sales of services

Sales of services increased by HRK 328.1 million, or 37.9 per cent, from HRK 866.0 million to HRK 1,194.1 million. As a percentage of total sales, sales of services increased from 3.7 per cent to 5.2 per cent.

Total sales

Total sales decreased by HRK 461.1 million, or 2.0 per cent, from HRK 23,342.7 million to HRK 22,881.5 million. This decrease was primarily driven by the decrease in sales revenue of our Retailing and Wholesale division.

Other income

Other income decreased by HRK 48.2 million, or 28.1 per cent, from HRK 171.2 million to HRK 123.0 million. As a percentage of total sales, other income decreased from 0.7 per cent to 0.5 per cent.

Change in inventories of finished goods and works in progress

Change in inventories of unfinished and finished goods decreased by HRK 131.2 million, from HRK 39.7 million to negative HRK 91.5 million, 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 532.7 million or 3.2 per cent from HRK 16,643.9 million to HRK 16,111.2 million. As a percentage of total sales, cost of materials and goods sold decreased from 71.3 per cent to 70.4 per cent. The decrease is predominantly the result of lower sales.

Cost of services

Cost of services increased by HRK 80.3 million, or 4.2 per cent, from HRK 1,912.6 million to HRK 1,992.9 million. As a percentage of total sales, cost of services increased from 8.2 per cent to 8.7 per cent.

Staff costs

Staff costs decreased by HRK 17.1 million, or 0.7 per cent, from HRK 2,309.6 million to HRK 2,292.6 million. As a percentage of total sales, staff costs increased from 9.9 per cent to 10.0 per cent.

Depreciation and amortization

Depreciation and amortization increased by HRK 11.6 million, or 1.5 per cent, from HRK 791.0 million to HRK 802.6 million. As a percentage of total sales, depreciation and amortization increased from 3.4 per cent to 3.5 per cent.

Other costs

Other costs decreased by HRK 65.6 million, or 9.3 per cent, from HRK 702.5 million to HRK 636.9 million. 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 increased by HRK 8.7 million, from negative HRK 2.9 million to negative HRK 11.6 million.

Financial income

Financial income increased by HRK 282.0 million, or 68.1 per cent, from HRK 414.3 million to HRK 696.3 million principally due to higher foreign exchange gains. As a percentage of total sales, financial income increased from 1.8 per cent to 3.0 per cent.

Financial expense

Financial expense increased by HRK 201.2 million, or 18.6 per cent, from HRK 1,079.0 million to HRK 1,280.2 million. 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 4.6 per cent of total consolidated sales to 5.6 per cent.

Profit/loss before tax from continuing operations

As a result of the foregoing items, income before taxation decreased by HRK 44.9 million, from HRK 526.3 million to HRK 481.4 million. As a percentage of total sales, profit/loss before tax from continuing operations decreased from 2.3 per cent to 2.1 per cent.

Taxation

Taxation decreased by HRK 4.8 million, or 4.3 per cent, from HRK 112.2 million to HRK 107.3 million. As a percentage of total sales, taxation remained on the same level of 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 decreased by HRK 40.1 million, from HRK 414.2 million to HRK 374.1 million. Net profit attributable to equity holders increased by HRK 50.7 million, from HRK 187.1 million to HRK 237.9 million. The non-controlling interest increased by HRK 7.3 million, from HRK 128.0 million to HRK 135.2 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 June 30th, 2016 amounted to HRK 2,395.4 million, compared to HRK 2,608.6 million as of December 31st, 2015.

Net cash used in investment activities amounted to HRK 1,000.3 million and reflects increase in property, plant and equipment and intangible assets as well as increase in other long term financial investments.

Net cash generated from financial activities during the six months period reflects changes in credit lines that were available to the Group. Debt as of June 30th, 2016 amounted to HRK 25,523.2 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 June 30th, 2016 and June 30th, 2015:

Cash flows	30.6.2015	30.6.2016
	(HRK million)	
Net cash flows from operating activities before changes in working capital	**1.999,7**	**1.901,0**
Interest paid	(914,5)	(887,4)
Changes in working capital	(1.200,9)	461,9
Net cash provided by/(used in) operating activities	**(629,5)**	**1.110,4**
Capex	(499,7)	(684,5)
Acquisitions of subsidiaries, net of cash acquired	(386,2)	(1,8)
Net cash used in investing activities	**(1.089,8)**	**(1.000,3)**
Net cash from financing activities	**1.606,3**	**(323,3)**
Net increase/(decrease) in cash and cash equivalents	**(113,0)**	**(213,2)**

Changes in working capital

At June 30th, 2016 changes in working capital were positive and amounted to HRK 461.9 million compared to the negative contribution of HRK 1,200.9 million in the corresponding period last year. The main driver of these positive changes in working capital was the increase of accounts payables coupled with a decrease in inventory.

Capital expenditure

Capital expenditures increased by HRK 184.9 million, or 37.0 per cent, from HRK 499.7 million to HRK 684.5 million.

Indebtedness

The following table summarizes our indebtedness at December 31st, 2015, March 31st, 2016 and June 30th, 2016:

Borrowings (HRK million)	**31.12.2015**	**31.03.2016**	**30.06.2016**
Long-term borrowings			
-Bank loans	16.319,8	16.077,7	16.043,4
-Bonds	6.808,5	6.639,6	6.679,5
-Non-bank loans	30,4	53,9	52,0
-Finance leases	1.255,1	1.199,2	1.164,7
Total long-term borrowings	**24.413,7**	**23.970,4**	**23.939,6**
Total current portion of long-term borrowings	(4.732,1)	(4.630,5)	(4,841.9)
Short-term borrowings			
-Bank loans	1.126,9	1.210,1	1.262,2
-Non-bank loans	303,4	321,0	321,4
Total short-term borrowings	**1.430,3**	**1.531,0**	**1.583,6**
Total borrowings	**25.844,0**	**25.501,4**	**25.523,2**

The table below summarizes the maturity profile of our long-term borrowings at December 31st, 2015, March 31st, 2016 and June 30th 2016:

Maturity of Long-term debt (HRK million)	**31.12.2015**	**31.3.2016**	**30.6.2016**
2016	4.732,1	4.390,7	1.851,7
2017	3.593,2	3.621,3	3.537,4
2018	966,4	937,8	1.185,0
2019	3.544,4	3.553,0	3.882,8
2020	6.130,5	5.955,0	6.331,7
2021	5.447,1	5.255,6	5.538,9
2022 and later		256,9	1.612,1
Total	**24.413,7**	**23.970,3**	**23.939,6**