MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN Q1 2010

May 31, 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 consolidated results for the periods ended March 31, 2010 and March 31, 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 March 31, 2010.

Overview

We continued with successful implementation of our profitability-focused strategy in the first quarter of 2010 and managed to deliver strong performance regardless of the negative economic environment on all of our Primary markets which was not present in the first quarter of Q1 2009. Rising unemployment and overall fall in consumption coupled with falling prices due to high customers' price sensitivity characterized the first 3 months of 2010. Nevertheless, we managed to take advantage of our market leadership position to be the first in recognizing market trends and adjust our strategy accordingly. We managed to sustain and even increase market shares across most of our businesses while improving the profitability through cost optimizations and efficiency enhancements on all business levels.

Our Retailing and Wholesale division was the main growth driver led by the excellence in customer care and category management. The main challenge came from in-store deflation which was mostly the result of constant promotions and discounts undertaken by all market participants. Customer loyalty and internal operational efficiencies proved to be our main competitive strengths in outperforming the market.

Food Manufacturing and Distribution division saw a decrease in sales revenues but a significant improvement in operating profitability. We believe this was a solid performance since our branded product portfolio was under pressure from the increased consumption of private label products and lower quality brands. In terms of volume, we managed to deliver growth through strong and well targeted marketing activities and introduction of new products with the goal to capture the lower income population target and on the other hand to capture the highest income niche by introducing functional and highly innovative products.

Key highlights of Group Results and Strategy

Stable revenues in a challenging environment

Consolidated sales amounted to HRK 5,478.5 million (EUR 752.1 million) which represents a 0.1 per cent increase compared to the previous year.

EBITDA increased by 22.7 per cent to HRK 414.4 million (EUR 56.9 million), and Operating profit increased by 33.1 per cent amounting to HRK 218.2 million (EUR 30.0 million).

We continued to implement cost savings and operating efficiency measures started in 2009. The Q1 operating margin improved driven by lower input prices of raw materials and better terms from our suppliers. We have further offset the effect from falling retail prices with efficiency improvements in our logistics and distribution systems including the reorganization and optimization of transport routes and the commissioning and delivery of goods and further workforce optimization. Our customercentric strategy in our Retailing and Wholesale division proved to be a strong competitive advantage in adjusting our category management to perfectly meet the consumer needs.

Increasing retail market shares and customer base

While the overall retail market in our Primary markets substantially deteriorated and consumption was under pressure we were able to outperform the industry through organic growth and new store openings, which resulted in increasing market shares and strengthening of our leadership position in the region. Furthermore, we increased our retail customer base in Croatia, Serbia and Bosnia and Herzegovina by 6.5 per cent, 31.5 per cent and 36.3 per cent respectively.

Recent developments

We are currently in the process of finalizing the new Senior Facilities Agreement in the amount of up to EUR 350 million with a purpose to refinance the existing Senior Facilities Agreement dated 2006 and certain short term bilateral loans. The expected closing of the transaction is foreseen for the second quarter of 2010.

We acquired 29 stores in Croatia including 18 through the acquisition of 66.0 per cent stake in Jadrankomerc for HRK 31.4 mn and 11 stores through the acquisition of 100.0 per cent of Trgovacko Opatija for HRK 90.4 mn. All the stores are located in the coastal region and were previously rented to Konzum and generated approximately HRK 260 mn sales revenues in 2009. Both companies were acquired through insolvency procedure and it was of strategic importance for Konzum to remain operating in these profitable locations.

Konzum has entered into new rent agreement with W.P. Carey for its logistics and distribution center. The previous owner of the property has sold the asset to W.P. Carey who is now renting it to Konzum.

Performance of divisions

Retailing and Wholesale

Our efficient pricing strategy, effective promotions, excellence in customer care and cooperation with suppliers drove up revenues and profitability of our retail operations and resulted in another quarter of steady market share increase. The growth drivers were operations in Serbia and Bosnia and Herzegovina, with both experiencing double digit growth rates. The Q1 EBITDA increased by 34.3 per cent y-o-y again mostly contributed by our operations in Serbia and Bosnia and Herzegovina. In order to tackle unfavourable economic environment including price deflation pressures, high unemployment rates and decreasing purchasing power, we have undertaken the following actions:

- *effective marketing and promotional activities*
- *cooperation with suppliers to offer attractive pricing*
- *strengthening and expending our private label offering*
- *further implementation and cost optimization and efficiency increase program*
- *providing highest level of service and quality*
- *further focus on the availability of fresh assortment*

Croatia

Konzum outperformed the overall market and managed to strengthen its leading position and increase the market share. Despite the in-store deflation of 4.9 per cent and decreasing purchasing power Konzum's retail operations experienced a steady growth. On the other hand, smaller retailers had difficulties adjusting to the current economic environment which had a negative impact on our Wholesale business. Additionally, the negative impact was also caused by lower level of sales to gas stations, which in Q1 of 2009 generated the majority of Sunday's sales due to the trade law prohibition banning retail stores to work on Sunday. Although the market experienced significant downward pressure on prices, through cost and staff optimizations, cooperation with suppliers and strengthening of our private label assortment we managed to sustain high levels of operating profitability. We also increased the consumer base by 6.5 per cent.

Serbia

Our operations in Serbia in Q1 2010 were faced with macroeconomic challenges of high unemployment which reached 20 per cent (estimated), further depreciation of the Serbian Dinar towards Croatian Kuna of 6.8 per cent (depreciation of 5.1 per cent towards EUR) and in store deflation of 4.7 per cent. The market was characterized with a very strong downward pressure on prices and constant promotions by all market participants. Idea posted double digit growth rates in both revenues and profitability. In order to tackle the challenging environment Idea cooperated with suppliers to adjust the pricing, increased the number of private label offerings and invested into marketing and promotions increasing the retail consumer base by 31.5 per cent. The rise in profitability was mainly driven by staff optimization, improvements in logistics, lower rent contracts and additional rebates due to increasing scale. Additionally, the wholesale division posted double digit growth rates but the main focus was put on working capital management and on ensuring timely payments from our customers. Due to the challenging market situation many small corner shops have been facing problems with liquidity and therefore Idea was more cautious with its sales to external customers.

Bosnia and Herzegovina

The Bosnian and Herzegovinian retail market in Q1 was characterized by downward pressures on prices which resulted in a notable contraction in the size of the average consumer basket. However, through new store openings, constant in store promotions and strong marketing activities Konzum Sarajevo managed to increase the number of customers by 36.3 per cent and further increased its market share. Furthermore, Konzum Sarajevo had a double digit top line growth while profitability was further enhanced by savings in marketing, more favourable rent contracts and lower number of write offs in fresh assortment. The customer base increased by 36.3 per cent.

Store breakdown on our Primary markets

On March 31, 2010 we had a total of 890 stores (including 26 Velpro wholesale stores) which we own or operate under operating leases and rental arrangements.

The tables below shows new retail store openings and closings by country and by format in Q1 2010.

Q1 2010 Ended March 31, 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	18	4,364	(2)	(1,076)	883	644	224,452
KONZUM Sarajevo (Bosnia and Herzegovina) [1]	115	56,068	5	1,411	(3)	(813)	0	117	56,666
IDEA (Serbia)	97	40,851	6	991	0	0	0	103	41,842
Group Total	**840**	**317,200**	**29**	**6,766**	**(5)**	**(1,889)**	**883**	**864**	**322,960**
[1] included Kozmo (B&H)	1	113	0	0	(1)	(113)	0	0	0

Q1 2010 Ended March 31, 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%	569	95,407	76	13,135	88	17,941	733	126,483	39.2%
Maxi	75	61,036	19.2%	33	27,750	34	27,247	9	6,757	76	61,754	19.1%
Super	53	125,184	39.5%	42	101,295	7	16,284	5	10,509	54	128,088	39.7%
Hyper	1	6,635	2.1%					1	6,635	1	6,635	2.1%
Kozmo	1	113	0.04%	0	0	0	0			0	0	0.0%
Total retail	840	317,200	100.0%	644	224,452	117	56,666	103	41,842	864	322,960	100.0%
Velpro	25	100,375		17	47,745	2	6,980	7	45,950	26	100,675	
Total retail and wholesale	**865**	**417,575**		**661**	**272,197**	**119**	**63,646**	**110**	**87,792**	**890**	**423,635**	

Food Manufacturing and Distribution

The Food Manufacturing and Distribution division managed to increase the operating profit while the sales declined by 5.8 per cent partly due to the disposal of the company Mlinar (which occured in second quarter of 2009) and lower sales in ourgriculture operations. EBITDA increased by 29.6 per cent driven by lower prices of raw materials and efficiency enhancements. The main contributors to the enhancement in operating profitability were the Ice cream and frozen food and Edible oil and margarines businesses. Despite the trend of rising customer price sensitivity reflected in the increased consumption of private label and lower quality brands, we managed to adjust our marketing strategy and increase volumes sold and market shares in most of the product categories. The main challenge was to keep the operating margins which were under downward price pressures while maintaining the strong brand equity. In addition, we saw the positive effect of previous years' investments on the operating efficiency.

In the Water and beverages segment we decided to capture the lower income population and put a stronger emphasis on the sales of b-branded products such as the carbonated drink brand "Sky" and the fruit juice b-brand "To" while we kept our water brands' market share through strong marketing activities. The similar strategy was pursued in the Ice cream and frozen food segment where our frozen food b-brand "Fresco" managed to capture the more price sensitive customers while aggressive and effective promotions secured stable market shares of our primary brands. Oil and margarines, as the most price sensitive product category, saw increase in volumes sold and a notable increase in profitability due to lower cost of inputs and cost optimizations. The Agriculture segment saw a decline in revenues as we divested the company Mlinar in the course of 2009 and reduced contract farming but the operating profit increased in absolute terms.

Recent Macroeconomic Developments

The financial and banking systems in the region were not significantly hit by the world's financial crisis due to conservative policies of National Banks and adequate capitalization of commercial banks, however the overall economic downturn continued to affect the real economies in our Primary markets (Croatia, Serbia and Bosnia and Herzegovina) in the first quarter of 2010.

Croatia

The macroeconomic environment in Q1 was marked by a further decrease in consumption and a rising unemployment rate. Although the trend in industrial production has been positive during Q1 2010, the pace of expansion was too weak to suggest a sustained recovery. Budget revenues underperformed during the first two months of the year, while the current account deficit continued to narrow. The domestic demand remained fragile only showing a slight recovery of the consumer confidence which was offset by the negative movements in unemployment rate. First estimates of the Central Bureau of Statistics show a decrease in real GDP of 2.5 per cent y-o-y which represents a slight slowdown in the negative trend. With the removal of additional excise duties on income, we expect the pressure on personal consumption would additionally ease in the upcoming months. Inflationary pressures remain muted – the estimated average consumer price increase for Q1 2010 was below 1.0 per cent reflecting the downward pressure on prices caused by lower disposable income and weak personal consumption. The EUR/HRK exchange rate movements through the first quarter were stable with the average exchange rate at 7.284 compared to 7.408 in Q1 2009. Croatia continued to move along the EU accession path and should be able to open all chapters of EU accession process during the second quarter.

Sources: Croatian National Bank; Central Bureau of Statistics; Raiffeisen Research Report; Unicredit Research Report

Serbia

The global financial crisis continued to influence the Serbian economy although the first positive trends have been seen in Q1 2010. Real GDP is expected to increase by 1.0 per cent (compared to decline of 2.9 per cent in Q1 of 2009). The growth was driven by metals production including manufacturing of basic metals, manufacturing of motor vehicles and trailers, extraction of crude oil and gas and printing and reproduction of recorded media while the depreciation of Serbian dinar favoured the export oriented companies especially in the agriculture segment. Meanwhile the trend of growing unemployment rate and the decrease in disposable income continued. The industrial production increased by 2.8 per cent in the first quarter mostly as a result of a weak base from Q1 of 2009. Consumer prices in the first quarter of the 2010 rose by 4.5 per cent (compared to the estimated growth of 8.1 per cent in 2009 and 12.4 per cent in 2008) representing a significant slowdown compared to the previous downward trend. At the same time, the average EUR/RSD exchange rate has depreciated 5.1 per cent compared to Q1 2009. In part due to depreciation effects, in the period from January to March exports increased by 14.9 per cent y-o-y and the trade deficit dropped down by 20.7 per cent. The positive impact in the upcoming period is expected from the government measures of consumer loan subsidies and planned investment projects in the public sectors, however we expect the market to remain fragile due to high unemployment rate. Lastly, the IMF program remains an important anchor for Serbia's sovereign rating.

Source: Statistical Office of the Republic of Serbia; National Bank of Serbia

Bosnia and Herzegovina

Domestic demand in Bosnia and Herzegovina remains subdued, production activity is still weak and the credit market is not showing any clear signs of recovery. The 2010 GDP is expected to contract by 1.0 per cent according to Unicredit Research while EBRD forecasts a 0.6 per cent growth. Industrial production is showing the first sign of recovery with the 2.0 per cent increase in the first quarter 2010 comparing to the same period last year. The average net wage in March slightly rose compared to the 2009 average, while unemployment kept an upward trend. In the first two months of the year merchandise exports rose by 18.0 per cent y-o-y (mostly commodities and steel) while merchandise imports fell by 5.8 per cent y-o-y. This last figure demonstrates the weakness of current domestic demand. Credit growth in the first two months of 2010 was down 3 per cent y-o-y with the credit demand remaining weak. Other material recent developments in Bosnia and Herzegovina included Structural reforms passed by parliament ensuring the disbursement of IMF and World Bank funds.

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 and unemployment rate rises, 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. In such economic environment, we may also need to reduce our prices (including through price-based promotions) in response to increased competition (for more detailed discussion of the macroeconomic environment in the first quarter of 2010 please refer to "Recent Macroeconomic Development" above).

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.

All of the above are heavily dependent on movements in the commodities markets, although the prices in our primary markets are insulated to a degree by state subsidies (except for plastic bottle pre-forms and oil seeds). 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 the prices of all our key raw materials kept the slight downward trend following the decline in 2009 (except meat) as a result of the global economic crisis.

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. 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 Dinar and Hungarian 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 Q1 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. Croatia had approximately 57.1 million and 56.3 million tourist nights in 2008 and 2009, respectively, according to the Central Bureau of Statistics. We seek to minimize the effects of seasonality in a number of ways. For example, in our ice cream business, we have introduced lines of frozen pastry, fruit and vegetables and fish to reduce the seasonality of our ice cream sales which peak during the summer months. In addition, in 2006 we began a marketing campaign aimed at promoting ice-cream consumption throughout the year.

Results of Operations

The following table presents our results of operations for the periods ended March 31, 2009 and March 31, 2010:

Profit and Loss Account (Unaudited)

(HRK million)	**Q1 2009**	**% of sales**	**Q1 2010**	**% of sales**	**2009/2008**
Sales	**5,475.4**	**100.0**	**5,478.5**	**100.0**	**0.1%**
Cost of materials	(3,872.2)	(70.7)	(3,774.9)	(68.9)	-2.5%
Cost of services	(432.1)	(7.9)	(458.3)	(8.4)	6.1%
Gross margin	**1,171.1**	**21.4**	**1,245.3**	**22.7**	**6.3%**
Other income	62.1	1.1	30.3	0.6	-51.2%
Other expenses	(1,069.3)	(19.5)	(1,057.3)	(19.3)	-1.1%
Operating profit	**163.9**	**3.0**	**218.2**	**4.0**	**33.1%**
Excess of fair value of net assets over the cost of acquisition, net of written off goodwill		-	74.7	1.4	
Share of gain/loss of associates		-		-	
Impairment of financial assets	(0.2)	(0.0)	(3.0)	(0.1)	
Dividend income	0.0	0.0		-	
Sale of subsidiaries		-		-	
Sale of properties, net	3.1	0.1	1.6	0.0	-50.3%
Interest income	14.3	0.3	22.7	0.4	58.7%
Interest expense	(91.1)	(1.7)	(153.5)	(2.8)	68.4%
Net foreign exchange profit	(240.3)	(4.4)	(88.9)	(1.6)	-63.0%
		-		-	
Income before taxation	**(150.2)**	**(2.7)**	**71.7**	**1.3**	**-147.7%**
		-		-	
Taxation	(18.0)	(0.3)	(34.0)	(0.6)	88.7%
Net profit for the year	**(168.3)**	**(3.1)**	**37.7**	**0.7**	**-122.4%**
		-		-	
Attributable to:		-		-	
Equity holders of the parent	(158.1)	(2.9)	26.1	0.5	-116.5%
Minority interest	(10.1)	(0.2)	(11.6)	(0.2)	14.2%

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
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)	0.0
Total sales	**117.8**	**1,754.5**	**4,429.4**	**493.4**	**(1,316.7)**	**5,478.5**
Operating profit	**(79.84)**	**162.7**	**128.0**	**7.4**		**218.2**
Operating profit margin (%)		0.1	0.0	0.0		
Depreciation	8.7	103.3	81.3	2.8		196.2
EBITDA	(71.1)	265.9	209.3	10.2		414.4
31.03.2009.						
Sales to external customers	25.4	937.2	4,065.4	447.5		
Intersegmental sales	87.2	837.6	189.9	224.7	(1,339.3)	0.0
Total sales	**112.6**	**1,774.8**	**4,255.3**	**672.1**	**(1,339.3)**	**5,475.4**
Operating profit	**(38.3)**	**112.2**	**83.3**	**6.7**		**163.9**
Operating profit margin (%)		0.1	0.0	0.0		
Depreciation	6.5	93.0	72.5	1.8		173.8
EBITDA	(31.8)	205.2	155.8	8.5		337.7

Comparison of the Periods Ended March 31, 2009 and March 31, 2010

Operating results

Sales

Our revenues are mostly generated from sales in the two core business segments: Food Manufacturing and Distribution and Retailing and Wholesale.

Sales revenues increased by 0.1 per cent in the first quarter of 2010 compared to the same period of the previous year, from HRK 5,475.4 million to HRK 5,478.5 million. This revenue growth, which is somewhat smaller then in the previous periods, is in line with the Decision of our Management Board to concentrate on profitability, core businesses and implement significant control over operating costs.

The major part of the increase is the result of the growth of revenues in the Retailing and Wholesale segment which accounted for 77.6 per cent of total sales revenues, representing an increase compared to the same period of the previous year amounting to 4.5 per cent, from HRK 4,065.4 million to HRK 4,250.1 million. The growth in revenues is mostly the result of organic growth in sales, newly opened stores and acquisition of new companies in the consolidation.

Sales generated in the Food Manufacturing and Distribution segment account for 16.1 per cent of total sales revenues, and their y-o-y decrease for the same period amounted to 5.8 per cent, from HRK 937.2 million to HRK 882.8 million. The decrease is primarily the result of lower revenues generated in the Agriculture segment.

For the overall picture of our operations, it is important to note that some of the businesses (i.e. Ledo, Ledo Čitluk, Frikom) have a seasonal character that reflect the first quarter results.

Operating expenses

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

Operating expenses decreased by 1.5% in the first quarter of 2010, from HRK 5,373.6 million to HRK 5,290.6 million. The highest share in the structure of costs of goods sold and overhead expenses is that of the Retailing and Wholesale segment, accounting for 75.2 per cent of the total expenses. The costs incurred in this business segment increased by 3.4 per cent, from HRK 3,986.2 million to HRK 4,123.9 million, mostly due to the increase in volumes.

Within the other segment, Food Manufacturing and Distribution which accounted for 13.5 per cent of the total expenses, there was a decrease of 13.1 per cent from HRK 847.9 million to HRK 737.3 million.

Operating profit

Operating profit increased in the first quarter of 2010 to HRK 218.2 million, from HRK 163.9 million in 2009. Operating profit generated in the Food Manufacturing and Distribution segment amounted to HRK 162.7 million and in the Retailing and Wholesale segment amounted to HRK 128.0 million. The Holding operating profit (consisting only of Agrokor d.d.) amounted to HRK -79.8 million.

Net gain/loss

Net gain in the first three months of 2010 amounts to HRK 37.7 million, while a net loss for the same period of 2009 amounted to HRK 168.3 million. Significant increase in net profit was mostly the result of the large decrease in net foreign exchange differences.

Net foreign exchange (loss)/profit

Net negative foreign exchange differences in the first three months amounted to HRK 88.9 million while for the same period in the previous year they amounted to HRK 240.3 million. The change is the result of the fluctuation of the Euro exchange rate in which the transactions are mostly denominated.

Net interest expenses

Net interest expenses were increased in the first quarter of 2010 by 70.2 per cent, from HRK 76.8 million to HRK 130.7 million. The increase was the result of the increased interest margins and change of the debt structure as well as the sources of financing.

Income tax

Income tax increased in the first quarter of 2010, from HRK 18.0 million to HRK 34.0 million. Tax advance payments are paid according to the calculation based on the results of the previous year with the final settlement of income tax taking place at the end of the business year.

Minority interest

Minority interest increased in the first three quarters of 2010, from HRK -10.1 million to HRK 11.6 million, due to the slightly better 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 March 31, 2010 amounted to HRK 806.7 million compared to HRK 895.8 million at December 31, 2009.

Net funds used in investment activities of HRK 379.1 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 and 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 quarter reflect the changes in short-term and long-term loan facilities used by the Group. Drawn loan facilities as at March 31, 2010 amount to HRK 9,212.4 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 increase in the borrowings is detailed in the explanation of Note 4 Borrowings in the unaudited interim financial statements for the period ended March 31, 2010.

The table below presents our cash flows for the periods ended March 31, 2009 and March 31, 2010:

Cash flows	31.03.2009.	31.03.2010.
	(HRK millions)	
Net cash flows from operating activities before changes in working capital	**75.0**	**337.4**
Interest paid	(115.5)	(133.3)
Changes in working capital	575.2	(57.2)
Net cash provided by/(used in) operating activities	**616.6**	**114.3**
Capex	(424.2)	(189.5)
Acquisitions of subsidiaries, net of cash acquired	(49.2)	(105.8)
Net cash used in investing activities	**(376.7)**	**(379.1)**
Net cash from financing activities	**(358.8)**	**(175.8)**
Net increase/(decrease) in cash and cash equivalents	**(119.0)**	**(89.1)**

Capital expenditure

During the first quarter of 2010, Agrokor invested resources in non-current tangible and intangible assets. Investments for the period from January 1 to March 31, 2010 amounted to HRK 189.5 million.

Projects have been financed from own resources (regular ongoing operations) and credit facilities.

Indebtedness

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

Borrowings	31.12.2009	31.03.2010.
	(HRK millions)	
Long-term borrowings		
-Bank loans	3,820.6	3,588.7
-Bonds	2,833.8	2,818.2
-Non-bank loans	23.3	21.7
-Finance leases	16.9	24.0
Total long-term borrowings	**6,694.6**	**6,452.6**
Total current portion of long-term borrowings	(914.2)	(1,103.0)
Short-term borrowings		
-Bank loans	2,292.7	2,679.8
-Non-bank loans	30.8	89.0
Total short-term borrowings	**2,323.5**	**2,768.8**
Total borrowings	**9,018.1**	**9,221.4**

The table below summarizes the maturity profile of our contractual long term bank loan and bond liabilities at March 31, 2010:

Maturity	Total
	(HRK millions)
2011	1,818.1
2012	345.1
2013	305.8
2014	266.0
2015	280.3
2016	2,870.2
Total	**5,885.5**

Acquisition of subsidiaries

During 2010 the Group acquired management control of Znanje d.d., through the purchase of 84.9 per cent of ownership of Znanje d.d. by Agrokor d.d. for HRK 41.8 million. The main business activity of Znanje d.d. is book publishing.

In the same period, the Group acquired management control of Vupik d.d., through the purchase of 87.9 per cent of ownership of Vupik d.d. by Agrokor d.d. for HRK 30.0 million with an obligation for further investment of HRK 430.0 million in next 5 years. The main business activity of Vupik d.d. is agriculture.

Quantitative and Qualitative Disclousers about Market Risk

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