MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN Q3 2016

November 29th, 2016

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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 September 30th, 2016 and September 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 September 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 Guaranteed Unsecured Notes due in 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 first nine months of 2016 with the same period last year, total sales[1] on a consolidated basis decreased by 2.2 per cent from HRK 36,889.2 million to HRK 36,094.9 million. EBITDA decreased by 9.6 per cent, from HRK 3,340.2 million to 3,020.0 million, while EBITDA margin[2] decreased from 9.1 per cent to 8.4 per cent. Within the Restricted Subsidiaries our total sales showed an increase of 0.4 per cent from HRK 22,327.5 million to HRK 22,418.4 million. EBITDA decreased by 1.2 per cent, from HRK 2,447.4 million to HRK 2,418.9 million predominantly due to softer performance of our retail division.

During the first nine months of 2016 our primary focus was 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 84.1 per cent to the total consolidated sales and posted a decrease of 2.6 per cent compared to the previous year with sales decreasing from HRK 31,172.5 million to HRK 30,357.1 million. Division's EBITDA decreased from HRK 2,182.8 million to HRK 1,823.5 million representing a 16.5 per cent decrease with EBITDA margin decreasing from 6.7 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 12.7 per cent to the total consolidated sales. Sales in this division posted a marginal growth of 0.8 per cent compared to the same period last year, from HRK 4,547.8 million to HRK 4,583.3 million. Division's EBITDA decreased from HRK 1,195.6 million to HRK 1,189.2 million representing a 0.5 per cent decrease. EBITDA margin decreased from 14.1 per cent to 13.8 per cent, on an unconsolidated basis, predominantly due to somewhat softer performance of our Edible Oils and Margarines and Meat and Agriculture businesses which were affected by decreasing commodity prices primarily in the first half of the year.

Other Businesses[3] division contributed 3.0 per cent to the total consolidated sales. Sales in this division posted an increase of 18.0 per cent, from HRK 906.4 million to HRK 1,069.5 million. EBITDA increased by 45.4 per cent from HRK 60.7 million to HRK 88.3 million with EBITDA margin increasing from 3.7 per cent to 4.8 per cent,

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

on an unconsolidated basis. Increase in both sales and EBITDA was predominantly driven by the contribution of new businesses acquired in 2015.

M&A and other 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.

Further to the previously announced SPA signing in July 2016 for disposal of Modiana, Mercator's fashion apparel retailer, the respective transaction has closed at the end of September 2016.

On 14th September 2016, Mercator has signed an SPA for the disposal of its sporting goods retailer Intersport with a private equity fund managed by Enterprise Investors. The completion of the transaction is subject to customary formal procedures, including obtaining regulatory approvals. The transaction is expected to be completed during 2016.

Recent Developments

On 10th November 2016 we have completed a wider refinancing exercise, extending c. EUR 840,000,000 of existing debt to approximately 2-3 year maturities. Agrokor has agreed with VTB Bank (Austria) AG the extension of c. EUR 340,000,000 of existing debt to approximately 2-3 year maturities. This is in addition to the extension of c. EUR 500,000,000 of short term debt in various bilateral and club facilities with BNP Paribas, Credit Suisse AG, London Branch, Goldman Sachs International Bank, J.P. Morgan Securities plc, Sberbank Europe AG, and Sberbank of Russia, which was announced on 19th September, 2016 and the conditions to the effectiveness of which have been fully satisfied. Agrokor now has reduced short term debt, with the majority of its facilities repayable from 2019 onwards.
Certain of the refinanced facilities include undertakings by Agrokor that 90 days prior to their respective maturities, the PIK Facility and the 2019 bonds are refinanced or have their maturities extended to at least March 14, 2020; and Agrokor's consolidated leverage ratio shall be less than 5.0x for the four most recent full fiscal quarters immediately prior to September 14, 2018 for which internal financial statements are available.

The sale and leaseback processes of real estate properties in Slovenia and Croatia are ongoing.

Performance of divisions

Retailing and Wholesale

Throughout the nine months of 2016 our Primary markets have shown signs of recovery and economic growth. The FMCG retail environment across these markets is slowly following the macroeconomic trends, however the segment has continued to be 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 loyal 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.

Retailing and Wholesale division in the first nine months of 2016 posted 1.0 per cent decrease in sales on an unconsolidated basis, from HRK 32,508.0 million to HRK 32,198.0 million, with an EBITDA decrease of 16.5 per cent, from HRK 2,182.8 million to HRK 1,823.5 million. EBITDA margin decreased by 110 bps, from 6.7 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 3.4 per cent with an EBITDA decline of 5.3 per cent which led to a margin decrease from 7.5 per cent in the first nine months of 2015 to 6.9 per cent in the first nine months of 2016.

Croatia

Croatian FMCG retail market has remained challenging in the first nine months of this year and has continued to be market with deflationary pressures. The strategy of repositioning our portfolio is proving to be successful in the current operating environment with medium and larger formats experiencing a better sales development comparatively to smaller formats. 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 have shown positive trends on the revenue side as well as having positive feedback from customers. Tourist season during Q3 has as expected positively contributed to the performance especially in July and September thanks to the timely preparation and interventions on the assortment, pricing policy, ensuring good stocking and display of top selling products. Moreover greater focus has been put on the logistics to ensure a seamless supply of the coastal stores.

As also stated in previous releases, working capital optimisation has been one of key operating targets in retail in the region, which enabled us to fine-tune the number of articles, mostly visible in the convenience store portfolio. Konzum has tested its first urban shop to get closer to our urban customers and the concept is showing positive results and will be turned into an ongoing project in 2016 and 2017 which will help us in addressing some of the competitive pressures.

Our wholesale business, which is operating this year as a separate legal entity, is showing stable results compared to the previous year when the business was managed through Konzum. The carve-out from Konzum has, from the business perspective, proven to be a positive due to more focussed management approach on this segment.

Slovenia

Despite signs of general macroeconomic recovery in Slovenia, the food retail market conditions throughout 2016 still remain tough with grocery retailers experiencing a slight decrease in revenues compared to the previous year. The market is saturated and the top 3 players account for 70 per cent market share.

Mercator's performance is a function of harsh market conditions, intensified activities of store refurbishment, and fewer units in non-core activities. Another cause for lower revenue in the market of Slovenia is the divestment of tourist service operations M Holidays, divestment of the Grosuplje Bakery (Pekarna Grosuplje), divestment of the Santana and Loka brands, and other divestment of non-operating assets in 2015. Mercator refurbished 17 stores in the first nine months 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 throughout 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 with the opening of new stores and refurbishment of existing ones. 23 new locations were opened and 4 were refurbished. Idea has been repositioned on the more competitive pricing line which showed positive feedback from customers. On top Mercator continued working on process optimization and as a part of that they have centralized fresh assortment now to the level of 80 per cent. Centralization is expected to bring better control of the supply chain.

Better inventory management and improving overall cash flows was one of the strategic priorities in 2016 which is showing positive results already.

The wholesale segment is experiencing an increase in the first nine months 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 the first nine months of 2016 we continued with store refurbishments and 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 and started introducing a higher share of appealing local assortment.

Our wholesale segment has been carved out from Konzum, as it was also 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 September 30th, 2016 we had a total of 1,913 retail FMCG stores and 55 wholesale FMCG stores. Out of these, Konzum (operation in Croatia and B&H) had a total of 1,003 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 Agrokor and Mercator stores by format:

Q3 2016 Ended (September 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	564	124.027	173	34.885	737	158.912
Maxi	107	91.175	45	40.795	61	48.532	106	89.327
Super	94	221.734	77	184.011	18	39.340	95	223.351
Hyper	0	0	0	0	0	0	0	0
Kozmo	69	12.707	65	11.824	0	0	65	11.824
Total FMCG retail	**1.000**	**481.546**	**751**	**360.657**	**252**	**122.757**	**1.003**	**483.414**
Velpro	27	57.807	25	46.622	5	8.278	30	54.900
Total FMCG retail and wholesale	**1.027**	**539.353**	**776**	**407.279**	**257**	**131.035**	**1.033**	**538.314**
Tisak	1.103	14.852	1.089	14.729	0	0	1.089	14.729

Mercator (Unrestricted Subsidiary)

Q3 2016 Ended (September 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	147.191
Neighbour stores	618	133.656	339	205			91		635	147.793
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**	**481.310**
Cash & Carry / VELPRO	25	36.550	14	9			2		25	36.654
Restaurants	10	1.514	8	0					8	1.379
TOTAL FMCG program	**946**	**514.724**	**494**	**341**			**108**		**943**	**519.343**
Technical consumer goods	53	46.478	44	0			1		45	37.998
Clothing program and drugstores	103	44.777	47	13	23	13			96	41.585
Clothing program	87	42.998	41	8	23	9			81	40.170
Drugstores and perfumeries	16	1.779	6	5		4			15	1.415
Intersport	93	42.911	36	13	38	10	5		102	47.718
M holidays	12	242							0	
Other	0								0	
TOTAL specialised programs	**261**	**134.408**	**127**	**26**	**61**	**23**	**6**	**0**	**243**	**127.301**
TOTAL retail units under management	**1.207**	**649.132**	**621**	**367**	**61**	**23**	**114**	**0**	**1.186**	**646.644**
Franchise stores	229	35.610	213					9	222	35.322
TOTAL	**1.436**	**684.742**	**834**	**367**	**61**	**23**	**114**	**9**	**1.408**	**681.966**

Food Manufacturing and Distribution

Food Manufacturing and Distribution division recorded stable unconsolidated sales posting an increase of 1,7 per cent from HRK 8,456.3 million to HRK 8,602.1 million. EBITDA remained nearly flat posting only a minor decrease from HRK 1,195.6 million to HRK 1,189.2 million with EBITDA margin decreasing by 31.4 bps from 14.1 per cent to 13.8 per cent. Generally the sales development has been slightly flat to positive in all businesses except for agriculture. EBITDA development has been positive in Water and Beverages as well as Ice cream and Frozen Food, while there was a certain weakness in our Edible Oils and Margarines and Meat and Agriculture businesses driven by adverse commodity and meat price movements.

Recent Macroeconomic Developments

Croatia

Croatian GDP growth has reached 2.8 per cent in Q2 2016 on the back of export growth and increased private consumption and a recovery in investment. Deflationary pressures continue to persist with October 2016 inflation at -0,5 per cent compared to the same period in 2015. The 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 in 2016 given the political deadlock on spending which is expected to translate into lower budget deficit. 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

Slovenian GDP has grown in the Q2 2016 2.1 per cent compared to the same period in 2015, driven by private consumption and net exports, adding 0.9pp and 0.8pp, respectively. Stronger-than-expected consumer momentum is supported by spike in car sales, solid private hiring, stronger real incomes and housing credit. And net exports reflect larger-than-anticipated pick-up in the euro zone's demand, price competitiveness outperformance of the euro area, higher degree of export market differentiation and product specialization. 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

According to preliminary estimate Serbia's Q3 2016 GDP growth has increase to 2.5 per cent y-o-y, driven by investment activity through public infrastructure projects, private investments and also private consumption on the back of increased employment and wages. Fiscal consolidation continues and in the first seven months of 2016 the consolidated general budget was balanced. Low core inflation indicates fundamental disinflationary pressures, coming mainly from low aggregate demand and low imported inflation.

Bosnia and Herzegovina

The economy remains vulnerable with Q1 2016 GDP growth at 2.1 per cent. Main growth drivers remain net exports, with some support from consumption. The unemployment rate has mildly decreased by 2.3 per cent. The consumer price deflation continues in July 2016 for 19 consecutive months. Current account deficit has widened in Q1 2016 to 5.8 per cent of GDP, up from 3.6 per cent in Q1 2015.

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 September 30th, 2016 and September 30th, 2015;

(HRK million)	**30.09.2015.**	**% of sales**	**30.09.2016.**	**% of sales**	**2016/2015**
CONTINUING OPERATIONS:					
Sales Revenue	35.584,8	96,5%	34.402,5	95,3%	-3,3%
Sales of services	1.304,3	3,5%	1.692,3	4,7%	29,7%
Total sales	**36.889,2**	**100,0%**	**36.094,9**	**100,0%**	**-2,2%**
Other income	242,1	0,7%	183,5	0,5%	-24,2%
Change in inventories of finished goods and works in progress	132,2	0,4%	-164,6	0,5%	n/a
Cost of material and goods sold	-26.285,0	71,3%	-25.676,0	71,1%	-2,3%
Cost of services	-2.957,4	8,0%	-2.958,0	8,2%	0,0%
Staff cost	-3.500,9	9,5%	-3.488,2	9,7%	-0,4%
Depreciation and amortization	-1.229,8	3,3%	-1.300,5	3,6%	5,7%
Other costs	-1.185,3	3,2%	-974,1	2,7%	-17,8%
Excess of fair value of net assets over the cost of aquisition, net of writen-off goodwill	1.279,5	3,5%			
Sale of properties, net	-5,2	0,0%	-71,4	0,2%	1272,8%
	-33.509,7	**90,8%**	**-34.449,3**	**95,4%**	**2,8%**
Financial income	496,5	1,3%	829,1	2,3%	67,0%
Financial expense	-1.861,0	5,0%	-1.934,4	5,4%	3,9%
	-1.364,5	**3,7%**	**-1.105,3**	**3,1%**	**-19,0%**
Profit before tax	**2.014,9**	**5,5%**	**540,3**	**1,5%**	**-73,2%**
Taxation	-246,8	0,7%	-176,8	0,5%	-28,4%
Profit/(loss) for the year	**1.768,1**	**4,8%**	**363,5**	**1,0%**	**-79,4%**
DISCONTINUED OPERATIONS:					
Loss after tax for the year from discontinued operations	-99,0	**0,3%**	33,6	**0,1%**	n/a
PROFIT/(LOSS) FOR THE YEAR	**1.669,1**	**4,5%**	**397,1**	**1,1%**	-76,2%
Attributable to					
Equity holders of the parent	1.409,8	3,8%	162,8	0,5%	-88,5%
Minority interest	259,3	0,7%	234,3	0,6%	-9,7%

Segmental Analysis

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

Business operating segments

(HRK million)	**Agrokor Holding**	**Food Manufacturing and Distribution**	**Retailing and Wholesale**	**Other Businesses**	**Intersegment sales**	**Consolidated**
30.09.2016.						
Sales to external customers	85,0	4.583,3	30.357,1	1.069,5		
Intersegmental sales	141,5	4.018,7	1.840,9	751,9	(6.753,1)	
Total sales	**226,5**	**8.602,1**	**32.198,0**	**1.821,4**	**(6.753,1)**	**36.094,9**
Operating profit	**(199,8)**	**869,6**	**978,9**	**70,9**		**1.719,6**
Operating profit margin (%)	-	10,1%	3,0%	3,9%		
Depreciation	118,8	319,7	844,7	17,3		1.300,5
EBITDA	(81,0)	1.189,2	1.823,5	88,3		3.020,0
30.09.2015.						
Sales to external customers	262,6	4.547,8	31.172,5	906,4		
Intersegmental sales	227,5	3.908,5	1.335,6	713,4	(6.185,0)	
Total sales	**490,1**	**8.456,3**	**32.508,0**	**1.619,8**	**(6.185,0)**	**36.889,2**
Operating profit	**(105,7)**	**874,3**	**1.298,2**	**43,7**		**2.110,4**
Operating profit margin (%)	-	10,3%	4,0%	2,7%		
Depreciation	6,7	321,4	884,7	17,1		1.229,8
EBITDA	(99,0)	1.195,6	2.182,8	60,7		3.340,2

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

Sales revenue

Sales revenue decreased by HRK 1,182.3 million, or 3.3 per cent, from HRK 35,584.8 million to HRK 34,402.5 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 95.8 per cent to 94.8 per cent.

Sales of services

Sales of services increased by HRK 388.0 million, or 29.8 per cent, from HRK 1,304.3 million to HRK 1,682.3 million. As a percentage of total sales, sales of services increased from 3.5 per cent to 4.7 per cent.

Total sales

Total sales decreased by HRK 852.9 million, or 2.3 per cent, from HRK 37,131.3 million to HRK 36,278.4 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 58.6 million, or 24.2 per cent, from HRK 242.1 million to HRK 183.5 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 296.8 million, from HRK 132.2 million to negative HRK 164.6 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 609.0 million or 2.3 per cent from HRK 26,285.0 million to HRK 25,676.0 million. As a percentage of total sales, cost of materials and goods sold remained stable at 70.8 per cent.

Cost of services

Cost of services remained stable and amounted to HRK 2,958.0 million. As a percentage of total sales, cost of services increased from 8.0 per cent to 8.2 per cent.

Staff costs

Staff costs decreased by HRK 12.7 million, or 0.4 per cent, from HRK 3,500.9 million to HRK 3,488.2 million. As a percentage of total sales, staff costs increased from 9.4 per cent to 9.6 per cent.

Depreciation and amortization

Depreciation and amortization increased by HRK 70.7 million, or 5.8 per cent, from HRK 1,229.8 million to HRK 1,300.5 million. As a percentage of total sales, depreciation and amortization increased from 3.3 per cent to 3.6 per cent.

Other costs

Other costs decreased by HRK 211.2 million, or 17.8 per cent, from HRK 1,185.3 million to HRK 974.1 million. As a percentage of total sales, other costs decreased from 3.2 per cent to 2.7 per cent.

Sale of properties, net

Net sale of properties increased by HRK 66.2 million, from negative HRK 5.2 million to negative HRK 71.4 million.

Financial income

Financial income increased by HRK 332.7 million, or 67.0 per cent, from HRK 496.5 million to HRK 829.1 million principally due to higher foreign exchange gains. As a percentage of total sales, financial income increased from 1.3 per cent to 2.3 per cent.

Financial expense

Financial expense increased by HRK 73.4 million, or 3.9 per cent, from HRK 1,861.0 million to HRK 1,934.4 million. The increase was principally due to the increase of other financial expenses related to the mark-to-market of hedging arrangements on the USD debt exposure. As a percentage of total sales, financial expense increased from 5.0 per cent of total consolidated sales to 5.3 per cent.

Profit/loss before tax from continuing operations

As a result of the foregoing items, income before taxation decreased by HRK 1,474.6 million, from HRK 2,014.9 million to HRK 540.3 million. As a percentage of total sales, profit/loss before tax from continuing operations decreased from 5.4 per cent to 1.5 per cent. The drop relates to the one off recognition of Mercator's intangible assets as at Q3 2015.

Taxation

Taxation decreased by HRK 70.1 million, or 28.4 per cent, from HRK 246.8 million to HRK 176.8 million. As a percentage of total sales, taxation decreased from 0.7 per cent to 0.5 per cent. Corporate taxation is based on the accounting profit for the year adjusted for permanent and temporary differences between taxable and accounting income.

Profit/loss for the year from continuing operations

Due to the factors discussed above, net profit decreased by HRK 1,404.6 million, from HRK 1,768.1 million to HRK 363.5 million. As a percentage of total sales, profits from continuing operations decreased from 4.8 per cent to 1.0 per cent.

Profit/loss for the year

Due to the factors discussed above, net profit decreased by HRK 1,272.0 million, from HRK 1,669.1 million to HRK 397.1 million. As a percentage of total sales, profits decreased from 4.5 per cent to 1.1 per cent. Net profit attributable to equity holders¸ decreased by HRK 1,247.0 million, from HRK 1,409.8 million to HRK 162.8 million. The non-controlling interest decreased by HRK 25.1 million, from HRK 259.3 million to HRK 234.3 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 September 30th, 2016 amounted to HRK 2,456.5 million, compared to HRK 2,608.6 million as of December 31st, 2015.

Net cash used in investment activities amounted to HRK 821.5 million and reflects a decrease in acquisition of subsidiaries and long term investments.

Net cash generated from financial activities during the nine months period reflects changes in credit lines that were available to the Group. Debt as of September 30th, 2016 amounted to HRK 25,551.4 million (on December 31st, 2015 it amounted to HRK 25,844.0 million) and interest rates were in the range of 2.5 per cent to 10.5 per cent.

The table below presents a summary of our cash flows for the period ended September 30th, 2016 and September 30th, 2015:

Cash flows	30.09.2015.	30.09.2016.
	(HRK million)	
Net cash flows from operating activities before changes in working capital	**3.394,0**	**3.047,9**
Interest paid	(1.571,0)	(1.478,8)
Changes in working capital	(1.085,8)	73,6
Net cash provided by/(used in) operating activities	**(120,4)**	**1.036,7**
Capex	(942,0)	(985,7)
Acquisitions of subsidiaries, net of cash acquired	(396,7)	(34,7)
Net cash used in investing activities	**(1.482,5)**	**(821,5)**
Net cash from financing activities	**1.561,0**	**(367,3)**
Net increase/(decrease) in cash and cash equivalents	**(41,9)**	**(152,1)**

Changes in working capital

At September 30th, 2016 changes in working capital were positive and amounted to HRK 73.6 million compared to the negative contribution of HRK 1,085.8 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 43.7 million, or 4.6 per cent, from HRK 942.0 million to HRK 985.7 million.

Indebtedness

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

Borrowings (HRK million)	**31.12.2015.**	**31.03.2016.**	**30.06.2016.**	**30.09.2016.**
Long-term borrowings				
-Bank loans	16.319,8	16.077,7	16.043,4	16.152,7
-Bonds	6.808,5	6.639,6	6.679,5	6.651,6
-Non-bank loans	30,4	53,9	52,0	44,9
-Finance leases	1.255,1	1.199,2	1.164,7	1.120,3
Total long-term borrowings	**24.413,7**	**23.970,4**	**23.939,6**	**23.969,5**
Total current portion of long-term borrowings	(4.732,1)	(4.630,5)	(4.841,9)	(4.996,1)
Short-term borrowings				
-Bank loans	1.126,9	1.210,1	1.262,2	1.283,2
-Non-bank loans	303,4	321,0	321,4	298,7
Total short-term borrowings	**1.430,3**	**1.531,0**	**1.583,6**	**1.581,9**
Total borrowings	**25.844,0**	**25.501,4**	**25.523,2**	**25.551,4**

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

Maturity of Long-term debt (HRK million)	**31.12.2015**	**31.3.2016**	**30.6.2016**	**30.9.2016**
2016	4.732,1	4.390,7	1.851,7	1.753,3
2017	3.593,2	3.621,3	3.537,4	3.630,7
2018	966,4	937,8	1.185,0	1.185,9
2019	3.544,4	3.553,0	3.882,8	3.883,5
2020	6.130,5	5.955,0	6.331,7	6.301,7
2021	5.447,1	5.255,6	5.538,9	5.529,0
2022 and later		256,9	1.612,1	1.685,6
Total	**24.413,7**	**23.970,3**	**23.939,6**	**23.969,5**