MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS IN I-IX 2012

November 30th, 2012

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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, 2011 and with our unaudited consolidated financial statements for the periods ended September 30th, 2012 and September 30th, 2011 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 2011 consolidated statements and the forefront part of the unaudited consolidated quarterly financial statements for the period ended September 30th, 2012.

Overview

In the first nine months of 2012 we delivered respectable results in both top line and EBITDA given the economic circumstances across our Primary markets. On a consolidated basis our sales amounted to HRK 22,094.0 million, representing an increase of 1.8 per cent. Our EBITDA amounted to 1,958.9 million, representing an increase of 2.0 per cent with EBITDA margin staying constant at 8.9 per cent.

We continued to focus on further increasing and maintaining our market shares across both of our divisions. The first nine months were marked by an increase in volumes sold which led to modest top line growth backed by our proactive measures in the form of effective marketing strategies, investments in prices and product portfolio extensions. We also continued with our cost optimization and efficiency improvement measures which led to a decrease in the share of Cost of services and Other expenses as percentage of sales.

Retailing and Wholesale division contributed with 75.8 per cent of total consolidated sales and had a growth of 2.1 per cent compared to the previous year, more specifically sales grew from HRK 16,420.2 million to HRK 16,757.5 million. The increase in sales was the result of a combination of new store openings as well as promotional and marketing activities followed by continuous price investments, such as discounts and rebates.

Food Manufacturing and Distribution division generated 20.8 per cent of the total consolidated sales. Sales in this division increased by 4.2 per cent, from HRK 4,417.6 million to HRK 4,604.2 million, compared to the same period last year. The increase of sales was mostly driven by the Ice cream and Frozen food due to strong touristic season and good weather conditions, coupled with the continuation of adequate marketing strategies.

Our Other Businesses division is continuously shrinking following the strategic decision to dispose of some non-core businesses (i.e. Unex), lower the volume of our commodity brokerage business in order to limit the risk exposure to price volatility and to discontinue other loss making activities. This resulted in a 7.5 per cent decrease in consolidated sales and an increase in EBITDA of 14.3 per cent (contributing 3.2 per cent of the consolidated sales).

Key highlights of Group Results and Strategy

Modest top line growth (+1.8 per cent at actual exchange rates, +3.3 per cent at constant rates)

The increasingly challenging market conditions in which we operate, declining consumption and changed consumer behavior had an impact on our operations and resulted in an overall slowdown of top line growth. Our consolidated sales grew by 1.8 per cent (3.3 per cent at constant exchange rates) compared to the same period last year and amounted to HRK 22,094.0 million.

Maintaining market shares across the region

In most of our business divisions we have managed to maintain our market shares across most of our businesses and keep our leadership position. We managed to further improve our offering as we continued to tailor our pricing policies, marketing activities through promotions and innovations as well as product assortment to stay abreast of the newest trends spurred by the macroeconomic environment.

Continued balance sheet strengthening

As the continuation of our focus on improving our capital structure we have signed a Club Loan Agreement in the amount of EUR 75 million, with a 3-year tenor and bullet repayment, with BNP Paribas, J.P. Morgan Limited and Zagrebačka banka d.d., Unicredit Bank Austria AG. Furthermore, in April we have issued Eur 300 million notes guaranteed on an unsecured basis with a coupon of 9.875 per cent maturing in 2019. The Joint Bookrunners were BNP Paribas, J.P.Morgan and UniCredit (Zagrebačka banka) with Erste Group, Privredna banka Zagreb, a bank of Intesa Sanpaolo, Raiffeisen Bank International and Societe Generale Corporate & Investment Banking acting as Co-Managers.

M&A activities

On February 6th, 2012, we terminated the exclusivity agreement for the acquisition of Mercator and withdrew our non-binding bid and have thus formally withdrawn from the sale process.

We are currently pursuing the acquisition of Roto Dinamic d.o.o., one of the largest beverages distributors focused on the HoReCa channel in Croatia, with sales and EBITDA of approximately HRK 500 million and HRK 20 million, respectively. On February 14th we received regulatory clearance from the Croatian Competition Agency and anticipate closing the transaction, subject to certain conditions, in Q1 2013.

We have sold our stake in the media buying company Unex.

Other material disclosures

Standard&Poor's ("S&P"), changed the outlook on our ratings to "positive" from "stable" in April. This confirmed the trust that international investors and analysts have placed in our business model and reflects our outstanding financial results even in a very challenging economic environment. According to S&P, the positive change in ratings outlook reflects our solid operating performance in 2011, improvement of our business risk profile, potential for moderate deleveraging due to revised financial policy as well as ongoing improvements in the liquidity position on the back of covenant relaxation and ongoing short-term debt refinancing.

On August 29th, 2012 we received the verdict of the Administrative Court of the Republic of Croatia dated 11th July, 2012 related to the court procedure initiated by Agrokor d.d. against HANFA with respect to the MTO of Belje. The court accepted the procedure initiated by Agrokor d.d. and HANFA's decision dated 6th October, 2011 was annulled.

Recent Developments

We successfully closed a new High Yield transaction at the beginning of October. The deal consisted of two tranches, EUR 325 million and USD 300 million bearing o coupon of 9.125 per cent and 8.875 per cent, respectively. The proceeds were used to refinance our existing financial liabilities which were maturing throughout the 2013 – 2015 period. The Joint Bookrunners were BNP Paribas, J.P.Morgan and UniCredit (Zagrebačka banka) with Erste Group, Privredna banka Zagreb, a bank of Intesa Sanpaolo, Raiffeisen Bank

International and Societe Generale Corporate & Investment Banking acting as Co-Managers.

In parallel we negotiated a Revolving Credit Facility in the amount of EUR 150 million for working capital needs. This Revolving Facility is an extension of the Club Loan Agreement which was repaid with the proceeds from the High Yield issuance.

On November 12th Ledo d.d. Management Board suggested to the Supervisory board the consolidation of the Ice cream and Frozen food businesses in the Adria region through the acquisition of two Agrokor d.d. subsidiaries, Frikom and Ledo Podgorica. To fund the acquisition the Board is proposing to do a capital increase in the range of approximately EUR 60 to EUR 100 million, whereby Agrokor would remain the majority shareholder. The General Assembly is scheduled for December 14th where the shareholders will vote for or against the proposition.

On November 9th Konzum d.d. Management Board made the decision to call the General Assembly where one of the points on the agenda will be seeking the consent of the shareholders for the acquisition of Agrokor d.d. subsidiary Idea, based in Serbia.

We are also considering divesting certain other non-core businesses and assets. None of these businesses and assets are part of our core group of and their sales are not material to the Group.

Performance of divisions

Retailing and Wholesale

The retail environment across the Primary markets continues to pose challenges. As a response to these conditions, we have continued investing in prices, widening the private label offering and further leveraging our customer-centric retailing capabilities which enabled us to tailor competitive pricing policies and focus further on customer care and offering the best value for money proposition to our faithful customers.

Retailing and Wholesale division in the first nine months of 2012 posted 2.3 per cent increase in sales on unconsolidated basis, with an EBITDA increase of 2.8 per cent. EBITDA margin increased by 2 bps as the cost savings managed to counteract the investment in prices and the negative impact of increased VAT and margin cap in Serbia.

Croatia

The retail environment in the country is continuing to experience significant challenges and posted a contraction in Q3 when compared to the previous year as a result of the overall economic downfall in the country. Konzum managed to grow its topline and even increase its profitability due to the strategic decision to retain price levels during Q3 as a result of expectations of a strong touristic season. This strategic decision coupled with the continuous implementation of the cost cutting program led to an increase in operating margins but also to a slight retraction of the market share.

In the competitive landscape there haven’t been any major changes with top 10 players still accounting for roughly 75 per cent.

In March, Konzum’s subsidiary MultiplusCard d.o.o. introduced a new mobile service „Multiplus mobile“. Konzum is again the pioneer offering this service among other retailers. This service will enrich the overall supply and bring additional value for money to new users of prepaid mobile tariffs. It will also enhance the overall offer of MultiPlusCard, the first joint loyalty program in Croatia.

Konzum continued widening services offered to customers by opening two petrol stations next to prime locations of Super Konzum’s in Zagreb and Ivanić Grad. The pilot project named Konzum Benz will be extended to other locations and is in line with trends in global retail industry.

Our wholesale business in the first nine months experienced growth as a result of the touristic season.

Serbia

The Serbian market is still posing challenges as the overall macroeconomic situation is weak and the Serbian dinar kept depreciating over the course of the first nine months. We posted top line growth as a result of a mixture of store openings and adequate promotional activities including investments in prices. Our cost savings program was continuously implemented however the benefits of the savings were offset by investments in prices and other two external factors: government measures introduced from 1st January, 2012 which limited the gross margin on certain basic consumer goods on all retailers (which accounts for approximately 20 per cent of our sales) and depreciation of the Serbian dinar. There are indications that the margin cap shall be lifted in the short term.

We enriched our existing promotional and marketing activities which were already positively recognized by our customers and this further strengthened our positive perception among consumers, leading to a further increase of our customers base and market share.

Our Wholesale segment experienced an increase as a result of still solid performance of mom and pap's stores which are popular in this highly fragmented market.

Bosnia and Herzegovina

Despite the overall challenging environment our retail operations posted strong results both in revenues and EBITDA which is mainly the result of a mix of new store openings and tailored promotional and marketing activities while continuing with the cost optimization program. The overall number of customers kept increasing which further strengthened our leading market position, however we experienced a slight decrease in the average consumer basket compared to the same period last year mostly due to the decrease of the overall purchasing power and a higher unemployment rate.

Our Wholesale segment experienced an increase as a result of still solid performance of mom and pap's stores which are popular in this highly fragmented market.

Store breakdown on our Primary markets

As at September 30th, 2012 we had a total of 979 retail stores and 32 Velpro wholesale stores, owned or operated under operating lease and rental arrangements.

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

Q3 2012 Ended September 30, 2012	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	679	263,262	2	1,094	(16)	(4,495)	(69)	665	259,792
KONZUM Sarajevo (Bosnia and Herzegovina)	152	68,740	1	1,189	(1)	(160)	776	152	70,545
IDEA (Serbia)	162	78,825	2	1,368	(2)	(956)	(987)	162	78,250
Group Total	**993**	**410,827**	**5**	**3,651**	**(19)**	**(5,611)**	**(280)**	**979**	**408,587**

Q3 2012 Ended September 30, 2012	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	826	159,131	38.7%	581	107,440	102	18,549	126	28,335	809	154,324	37.8%
Maxi	87	67,956	16.5%	32	27,086	41	31,976	16	10,894	89	69,956	17.1%
Super	79	176,917	43.1%	52	125,266	9	20,020	19	33,185	80	178,471	43.7%
Hyper	1	6,823	1.7%	0	0	0	0	1	5,836	1	5,836	1.4%
Total retail	993	410,827	100.0%	665	259,792	152	70,545	162	78,250	979	408,587	100.0%
Velpro	32	103,769		19	44,664	4	4,957	9	56,428	32	106,049	
Total retail and wholesale	**1,025**	**514,596**		**684**	**304,456**	**156**	**75,502**	**171**	**134,678**	**1,011**	**514,636**	
Tisak	1,242	15,808		1,233	15,642					1,233	15,642	

Food Manufacturing and Distribution

Compared to the same period last year, the Food Manufacturing and Distribution division experienced a sales and EBITDA growth of 6.1 per cent and 3.2 per cent, respectively, on unconsolidated basis. EBITDA margin decreased by 39 bps, from 14.1 per cent to 13.7 per cent.

Growth was generated across all our segments due to excellent pre-seasonal preparations, good weather conditions and the continuation of adequate marketing and brand strategies. Meat and Agriculture contributed most to the growth in sales while Ice cream and Frozen food contributed mostly to the growth in EBITDA.

Divisional EBITDA margin decrease is a direct result of more aggressive promotional activities, overall investments in prices and increasing share of the Meat and Agriculture segment in the overall division.

Recent Macroeconomic Developments

Croatia

Despite the positive outcome of the touristic season in terms of physical indicators (i.e. growth in the number of tourist arrivals by 3.2 per cent and overnight stays by 3.9 per cent in the first nine months) according to flash estimates GDP in Q3 experienced further decline by 1.9 per cent.

Retail trade in Q3 continues to reflect on-going weakness in domestic demand: the shock caused by the increase in VAT rate and energy prices as well as the unfavorable developments in the labor market and decreased lending to households. Despite the positive contribution of solid Q3 volume indicators in tourism, negative global developments and general reluctance to spend limited the positive effects. In the first nine months retail trade decreased by 3.5 per cent, while at the same time industrial production saw a reduction of 5.6 per cent on annual basis.

The inflationary pressures in the domestic market have intensified, leading to the average inflation of 3.1 per cent in first ten months, predominantly as a consequence of the growth in the prices of gas and electricity, while from the demand side inflationary pressures continued to be absent. Further, high temperatures and drought during the summer provided additional impetus to inflation and higher prices of food products.

Source: Unicredit Economics & FI/FX Research CEE Quarterly (4Q2012); Raiffeisen bank Croatia Research No. 47 – October 2012

Serbia

Flash estimate for Q3 suggests that Serbia is experiencing the third consecutive quarter with negative GDP growth and that the slightly weaker contraction in Q2 hasn’t been the sign of a potential recovery. According to this preliminary figures the GDP in Q3 contracted by 2.2 per cent on annual basis. At the same time, we see negative trends in all major segments of the Serbian real sector. Namely, industrial production decreased by 3.8 per cent and retail by 3.7 per cent in the first nine months.

What poses additional concern in Serbia is inflation, which peaked in October this year, with an increase of 2.3 per cent mom or 12.9 per cent on annual basis, well above the targeted level. Key triggers were food prices and transport. The local currency has strengthened in last couple of weeks, although it is still weaker when compared to the end of 2011.

Source: Raiffeisen bank Monthly Research, Serbia – October 2012

Bosnia and Herzegovina

Negative readings in all key macroeconomic categories persist. In the first nine months of 2012 the industrial production decreased by 5.6 per cent with reported contraction in all the three industrial categories: mining and quarrying (-4.6 per cent yoy), manufacturing (-5.4 per cent yoy), and electricity, gas and water supply (-6.7 per cent yoy). Average inflation, in the first nine months was 2.1 per cent.

Moody's also affirmed the country’s B3 rating, improving its outlook to stable from negative in July, supported by negotiations with the IMF and slow but notable progress with the EU. The Brussels meeting between the local authorities and the European Commission in June offered an opportunity for the government to submit its application for EU candidate status by year end. In line with expectations, officials from the State and Entity levels on September 11th, 2012 approached the International Monetary Fund ("IMF") with a coordinated set of measures and reforms exposed in the Letter of Intent which was also the official request for approval of the new Stand-by Arrangement in total amount of SDR 338.2 mn, approved by the Executive Board of the IMF at meeting in Washington in September with funds granted for a period of five years.

Source: Raiffeisen bank Quarterly Research, Bosnia and Herzegovina – November 2012

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. In line with the movements on the world commodities' markets the prices of most of our key raw materials increased during Q3 2012 compared to the last few quarters.

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, 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 SKUs 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 years ended September 30th, 2011 and September 30th, 2012:

(HRK million)	**Q3 2011**	**% of sales**	**Q3 2012**	**% of sales**	**2012/2011**
Sales	**21,697.6**	**100.0**	**22,094.0**	**100.0**	**1.8%**
Cost of materials	(15,186.5)	(70.0)	(15,567.3)	(70.5)	2.5%
Cost of services	(1,814.9)	(8.4)	(1,824.8)	(8.3)	0.5%
Gross margin	**4,696.2**	**21.6**	**4,701.9**	**21.3**	**0.1%**
Other income	162.6	0.7	118.1	0.5	-27.4%
Other expenses	(3,627.4)	(16.7)	(3,589.5)	(16.2)	-1.0%
Operating profit	**1,231.4**	**5.7**	**1,230.5**	**5.6**	**-0.1%**
Excess of fair value of net assets over the cost of acquisition, net of written off goodw	(0.7)	(0.0)	-	-	-100.0%
Share of gain/loss of associates					
Impairment of financial assets	(4.5)	(0.0)	(3.3)	(0.0)	-26.5%
Dividend income	0.0		7.0		
Sale of subsidiaries	-	-	35.1	-	-
Sale of properties, net	1.6	0.0	(20.4)	(0.1)	-1399.5%
Interest income	95.5	0.4	100.6	0.5	5.3%
Interest expense	(702.1)	(3.2)	(864.4)	(3.9)	23.1%
Net foreign exchange profit	(68.4)	(0.3)	(146.2)	(0.7)	113.7%
Income before taxation	**552.8**	**2.5**	**338.9**	**1.5**	**-38.7%**
Taxation	(146.0)	(0.7)	(136.1)	(0.6)	-6.8%
Net profit for the year	**406.7**	**1.9**	**202.8**	**0.9**	**-50.1%**
Attributable to:					
Equity holders of the parent	273.2	1.3	114.0	0.5	-58.3%
Minority interest	133.5	0.6	88.8	0.4	-33.5%

Segmental Analysis

The table below provides information on results of our business segments for the years September 30th, 2011 and September 30th, 2012:

(HRK million)	Agrokor Holding	Food Manufacturing and Distribution	Retailing and Wholesale	Other Businesses	Intersegment sales	Consolidated
30.09.2012.						
Sales to external customers	31.1	4,604.2	16,757.5	701.3		
Intersegmental sales	304.2	4,205.1	733.6	728.4	(5,971.3)	
Total sales	**335.3**	**8,809.3**	**17,491.1**	**1,429.7**	**(5,971.3)**	**22,094.0**
Operating profit	**(236.6)**	**864.8**	**543.2**	**59.1**		**1,230.5**
Operating profit margin (%)	-	9.8%	3.1%	4.1%		
Depreciation	5.4	345.8	363.5	13.7		728.3
EBITDA	(231.2)	1,210.6	906.7	72.8		1,958.9
30.09.2011.						
Sales to external customers	101.7	4,417.6	16,420.2	758.1		
Intersegmental sales	291.1	3,887.5	672.8	729.2	(5,580.6)	
Total sales	**392.8**	**8,305.1**	**17,092.9**	**1,487.3**	**(5,580.6)**	**21,697.6**
Operating profit	**(203.7)**	**836.5**	**557.2**	**41.4**		**1,231.4**
Operating profit margin (%)	-	10.1%	3.3%	2.8%		
Depreciation	5.3	336.9	324.8	22.2		689.2
EBITDA	(198.4)	1,173.3	882.0	63.7		1,920.6

Comparison of the Periods Ended September 30th, 2011 and September 30th, 2012

Sales

Our sales are mostly generated from sales in the two core business divisions: Food Manufacturing and Distribution and Retailing and Wholesale. Total sales increased by 1.8 per cent in the first nine months of 2012 compared to the same period of the previous year, from HRK 21,697.6 million to HRK 22,094.0 million.

Excluding intersegment sales, Retailing and Wholesale increased by HRK 337.3 million, or 2.1 per cent, from HRK 16,420.2 million in the period ended September 30th, 2011 to HRK 16,757.5 million in the period ended September 30th, 2012. Retailing and Wholesale sales contributed 75.8 per cent of total consolidated sales. The increase in sales was primarily the result of new store openings as well as aggressive promotional and marketing activities followed by continuous price investments, such as discounts and rebates.

Excluding intersegment sales, Food Manufacturing and Distribution sales increased by HRK 186.6 million, or 4.2 per cent, from HRK 4,417.6 million in the period ended September 30th, 2011 to HRK 4,604.2 million in the period ended September 30th, 2012. Food Manufacturing and Distribution generated 20.8 per cent of total consolidated sales. The increase in sales was mostly driven by significant sales growth in the Ice cream and Frozen food segment.

O***perating expenses***

Operating expenses relate to the Costs of materials, Cost of services and Other expenses.

Operating expenses increased by 1.7 per cent, from HRK 20,628.8 million to HRK 20,981.6 million and were predominantly driven by the increased level of operations. Cost of materials as percentage of sales increased by 47 bps, from 70.0 per cent to 70.5 per cent, primarily driven by our ongoing investment in prices. Cost of services as a percentage of sales decreased by 11 bps, from 8.4 per cent to 8.3 per cent while Other expenses decreased, as a percentage of sales, by 47 bps. This relative reduction is the result of our continuous cost optimization and increased efficiency efforts.

Operating profit

Operating profit decreased from HRK 1,231.4 million to HRK 1,230.5 million, representing a 0.1 per cent decrease.

Operating profit generated from the Food Manufacturing and Distribution segment increased by 3.4 per cent, from HRK 836.5 million to HRK 864.8 million, while in the Retailing and Wholesale segment it decreased by 2.5 per cent, from HRK 557.2 to HRK 543.2 million. In the same period operating loss of Holding company amounted to HRK 236.6 million.

Net foreign exchange loss/profit

Net foreign exchange loss amounted to HRK 146.2 million compared to HRK 68.4 million loss in the same period last year. The change is a result of negative foreign currency movements in countries in which the Group operates. The depreciation of the Serbian dinar had the most substantial impact. Just for a comparison purpose, EUR/RSD exchange rate increased by 9.9 per cent, while in the same period last year it decreased by 4.1 per cent.

Net interest expense

Net interest expenses increased by 25.9 per cent compared to the same period last year, from HRK 606.6 million to HRK 763.8 million due to the increase in the overall level of indebtedness and increased cost of financing.

Taxation

Income tax decreased by HRK 9.9 million from HRK 146.0 million to HRK 136.1 million. Tax advance payments are paid according to the calculation based on the results of the previous year. The final settlement of income tax takes place at the end of the business year.

Net profit/loss

Net profit for the period amounted to HRK 202.8 million, while the net profit in the same period last year amounted to HRK 406.7 million. Decrease in the net profit is a direct result of net foreign exchange loss and higher interest expense.

Non-controlling interest

Non-controlling interest income decreased from HRK 133.5 million to HRK 88.8 million due to lower profitability of companies in which minority shareholders have significant share.

Liquidity and Capital Resources

The main sources of our liquidity continued to be cash and cash equivalents generated in the regular course of business and financial arrangements with banks and financial institutions. Cash and cash equivalents as at September 30th, 2012 amounted to HRK 932.6 million compared to HRK 909.6 million as at December 31st, 2011.

Net funds used in investment activities of HRK 727.8 million in total relate to the purchase of non-current tangible and intangible assets. Purchase of non-current tangible and intangible assets relates in particular to the following: investments in stores and store refurbishment, farms, meet processing facilities, reconstruction of silos and loading ramp in Vupik, investments in storage facility in Lipovac, investment in biogas plant in Gradec, opening of gas stations near retail stores, purchase of licenses, IT and other equipment as well as in the new bottling line for soft drinks.

Net funds generated from financial activities reflect the changes in short-term and long-term loan facilities used by the Group. Drawn loan facilities (including Senior Unsecured Notes, New Club facility, Senior Facility Agreement and bilateral facilities with the EBRD and IFC) as at September 30th, 2012 amounted to 11,698.5 while as at December 31st, 2011 amounted to HRK 11,265.7 million in total with interest rates ranging from 4.0 to 11.0 per cent.

The table below presents a summary of our cash flows for the period ended September 30th, 2011 and September 30th, 2012:

Cash flows	30.09.2011.	30.09.2012.
	(HRK million)	
Net cash flows from operating activities before changes in working capital	**1,845.5**	**1,843.1**
Interest paid	(626.2)	(195.4)
Changes in working capital	(718.0)	(377.6)
Net cash provided by/(used in) operating activities	**312.7**	**376.6**
Capex	(974.5)	(593.7)
Acquisitions of subsidiaries, net of cash acquired	(184.9)	(28.6)
Net cash used in investing activities	**(1,101.0)**	**(727.8)**
Net cash from financing activities	**802.5**	**374.3**
Net increase/(decrease) in cash and cash equivalents	**14.2**	**23.1**

Changes in working capital

Negative changes in working capital were HRK 377.6 million compared to HRK 718.0 million from the same period last year. HRK 340.5 million positive changes in the working capital are due to improved working capital management.

Capital expenditure

Capital expenditures decreased by HRK 380.8 million, or 39.1 per cent, from HRK 974.5 million to HRK 593.7 million as a result of the continuation of our prudent capital expenditure policy.

Indebtedness

The following table summarizes our indebtedness at December 31st, 2011, March 31st, 2012, June 30th, 2012 and September 30th, 2012:

Borrowings (HRK million)	31.12.2011	31.03.2012.	30.06.2012.	30.09.2012.
Long-term borrowings				
-Bank loans	4,385.5	4,724.4	4,370.2	4,168.4
-Bonds	4,071.3	4,060.7	6,285.0	6,238.5
-Non-bank loans	16.0	11.9	1.0	0.8
-Finance leases	17.0	13.8	10.9	8.8
Total long-term borrowings	**8,489.9**	**8,810.8**	**10,667.1**	**10,416.5**
Total current portion of long-term borrowings	(935.2)	(867,0)	(745,5)	(719,4)
Short-term borrowings				
-Bank loans	2,619.5	2,490.3	975.9	1,267.0
-Non-bank loans	156.3	91.3	0.0	15.0
Total short-term borrowings	**2,775.8**	**2,581.6**	**975.9**	**1,282.0**
Total borrowings	**11,265.7**	**11,392.4**	**11,643.0**	**11,698.5**

The table below summarizes the maturity profile of our long-term borrowings at December 31st, 2011, March 31st, 2012, June 30th, 2012 and September 30th, 2012:

Maturity (HRK million)	31.12.2011	31.03.2012.	30.06.2012.	30.09.2012.
2012	935,2	713,6	382,5	208,1
2013	857,1	854,6	825,0	845,6
2014	916,2	913,4	910,2	907,3
2015	1.635,3	2.193,7	2.194,1	2.173,5
2016	4.120,0	4.108,6	4.112,8	4.078,4
2017 and later	26,0	26,9	2.242,5	2.203,6
Total	**8.489,8**	**8.810,8**	**10.667,1**	**10.416,5**