Target company management opinion

Pursuant to the Rules and Regulations of the Ljubljana Stock Exchange, d.d, and Article 34 of the Takeovers Act, the company Poslovni sistem Mercator, d.d., as the target company hereby announces the following:

Following is an opinion by the Management Board of the company Poslovni sistem Mercator, d.d. (hereinafter referred to as the Management Board), regarding takeover bid by the company Agrokor, d.d., as the acquiring company, for the acquisition of shares of the company Poslovni sistem Mercator, d.d.:

1. **assessment of effects of the takeover bid on the pursuit of all interests of the target company, particularly employment, and assessment of the acquirer's strategic plans regarding the target company, and of its possible effects on employment and the territory of operations, as specified in the prospectus;**

Based on the received takeover bid and the statements by the company Agrokor, d.d., in the prospectus on its business policy following the takeover, the Management Board believes that the planned business combination represents an important potential in terms of optimization of the supply chain, logistics, marketing activities, and other support activities both from the aspect of companies operations and performance on individual markets and from the Mercator Group aspect. Economy of scale in a particular market is the key factor of retailer competitiveness. Therefore, single management in individual markets and the region as a while allows major synergy effects regarding costs, as well as development and new investment into growth.

The Management Board believes that from the aspect of the entire group, consisting after the pending takeover of the companies of the acquirer and the companies of the target company's corporate group (its subsidiaries), the largest synergy effects will be reaped in international markets where merging of retail operations is planned, i.e. in Croatia, Serbia, and Bosnia and Herzegovina. The merger of retail operations in the markets of Croatia and Bosnia and Herzegovina where target company operations will be taken over by Konzum, and in Serbia where the acquirer's FMCG operations will be carried out by Mercator, will also include optimization of work processes, which will affect in the decrease of the number of employees, particularly in administration. In Slovenia and Montenegro where the acquirer has thus far not been present with its stores, the integration plans disclosed in the prospectus do not include major changes to operations and employment of the target company and its group, except as noted below.

The strategy presented by the company Agrokor, d.d., is to a great extent consistent with the business policy laid down by the company Mercator, d.d., as it includes the key elements such as focus on the core activity of trade, improvement of all operating processes, and growth of market shares in key markets. The Management Board believes the integration processes could have a positive effect on the further improvement of Mercator, d.d., operations in its core activity of trade and enable to further processes of withdrawal from non-core activities. The planned merger of trade operations in the markets of Croatia, Bosnia and Herzegovina, and Serbia, as well as the measures required by the relevant competition protection offices, will affect the retail network consolidation and optimization. On the other hand, merger of these operations will result in optimization of support work processes and procedures in order to improve return and generate further growth and development.

Some relations between the two companies following the acquisition of the majority shareholding in the company Mercator, d.d., and the mandatory takeover bid for the shares of the company Mercator, d.d., are regulated by the Business Combination Agreement regarding the acquisition of the shareholdings of the company Poslovni sistem Mercator, d.d., dated June 18, 2013, announced on the Ljubljana Stock Exchange website at http://seonet.ljse.si (hereinafter the Agreement) the provisions of which are binding for both companies. The Agreement also specifies that Mercator, d.d., is to remain an independent company headquartered in Ljubljana for no less than ten years. Based on the said agreement, the Management Board also expects that all commitments regarding Slovenian manufacturers and suppliers, worker rights, and maintaining of social dialogues will be observed and fulfilled. Should downsizing be required, the Management Board will seek to carry out such measure primarily by so-called soft methods, in compliance with the relevant legislation and the agreement with the social partners of the company Mercator, d.d.

Considering commitments made by the company Agrokor, d.d., regarding the company Mercator, d.d., specified in the Agreement, and the statements made by the company Agrokor, d.d., in the prospectus on the business policy following the takeover, the Management Board believes that successful takeover bid would have positive effects on the pursuit of the key interests of Mercator, d.d.

2. **disclosure of any agreement between the acquiring party and the target company Management Board regarding the takeover bid, or statement that there is no such agreement;**

No agreement has been made between the acquiring party and the target company Management Board regarding the takeover bid.

As specified in section 1 above, the Agreement regulates some relations between the companies in case of a takeover by the company Agrokor, d.d.

3. **disclosure of the contents of any agreement between the acquirer and the target company Management Board regarding the method of assertion of voting rights based on securities already held by the acquiring party, or statement that there is no such agreement;**

The company Agrokor, d.d., approved and transferred to the company Poslovni sistem Mercator, d.d., a subordinated loan in the amount of EUR 220 million, of which:

- EUR 200 million (initial conversion/debt-to-equity swap) was used for early repayment of Mercator Group borrowings to the creditor banks; and
- EUR 20 million (subsequent conversion/debt-to-equity swap) was used to finance working capital.

This considerably cut Mercator Group's debt to banks and provided additional liquidity funds for current operations.

The company Agrokor, d.d., committed to first vote in favour of the initial conversion (debt-to-equity swap), and in case of successful initial conversion (and subject to the condition of compliance of the subsequent conversion with the covenants of the company Agrokor, d.d., regarding their debt instruments) for the subsequent conversion (debt-to-equity swap) of the subordinated loan into the share capital of the target company, thereby increasing its ownership share in the company Poslovni sistem Mercator, d.d., while other ownership shares will be diluted accordingly.

4. **statement regarding whether the members of the target company management holding securities to which the takeover bid pertains intend to accept the bid;**

Management Board members do not hold any shares to which the takeover bid pertains.

5. **information on the most recent target company Annual Report and information of the book value of the shares bearing voting rights, to which the takeover bid pertains;**

<u>Revenue and productivity</u>
In 2013, Mercator Group revenue amounted to EUR 2,765,868 thousand, which is 3.7% less than in the year before. In Slovenia, revenue dropped by 3.4% as a result of lower purchasing power of the consumers, changes in shopping behaviour, lower investment into retail network development, and closing down of underperforming units of the apparel and technical consumer goods program. Revenue was also lower in overseas markets, dropping by 4.1%, which was the effect of persistently harsh economic conditions in these markets, increasingly stringent competition, as well as the withdrawal from the markets of Bulgaria and Albania.

<u>Operating costs</u>
Mercator Group cost of goods sold and selling costs, which include the purchase value of goods sold, production costs, selling costs, and other operating expenses, amounted to EUR 2,658,893 thousand in 2013, which is 2.9% less than in 2012.

Results from operating activities

Mercator Group's result from operating activities in 2013 was positive at EUR 35,973 thousand. Adjusting for write-offs and impairments in 2012, Mercator Group performance was improved in 2013 as the results from operating activities exceeded the 2012 figure by 8.9%.

Profit for the period

Mercator Group net loss in 2013 amounted to EUR 16,929 thousand, which is 10,488 thousand less than the loss incurred in the year before, adjusted for write-offs and impairments.

Gross cash flow from operating activities (EBITDA)

Gross cash flow from operating activities (EBITDA) in 2013 amounted to EUR 109,709 thousand, which is 1.2 percent lower than in the year before, which is mainly the result of a lower profit margin in FMCG retail, resulting in turn from competitive pressure and lower consumer purchasing power.

Detailed information on the target company performance in 2013 is available in the Annual Report for the Mercator Group and the company Poslovni sistem Mercator, d.d.; at the AJPES (Agency of the Republic of Slovenia for Public Legal Records and Related Services) website; or at the official website of the company Mercator, d.d., at www.mercatorgroup.si.

Book value per share of the company Poslovni sistem Mercator, d.d., as at December 31, 2013 is EUR 155.19.

During the meeting with the Works Council of Poslovni sistem Mercator, d.d., and representatives of the two representative trade unions, held on August 7, 2014, the Management Board presented its opinion on the takeover bid. The Works Council of the company Poslovni sistem Mercator, d.d., adopted the following RESOLUTION: »Works Council consents with the opinion of the management regarding takeover bid.«

Poslovni sistem Mercator, d.d.
Management Board